



# **MGM HOLDINGS INC.**

**For the quarter ended March 31, 2021**

**Delaware**

**(State or other jurisdiction of incorporation or organization)**

**245 North Beverly Drive  
Beverly Hills, California 90210  
(Address of corporate headquarters)**

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## Forward-Looking Statements and Risk Factors

This report contains forward-looking statements. In some cases you can identify these statements by forward-looking words such as “anticipates,” “believes,” “continues,” “could,” “estimates,” “expects,” “future,” “goal,” “intends,” “may,” “objective,” “plans,” “predicts,” “projects,” “seeks,” “should,” “will,” “would” and variations of these words and similar expressions. These forward-looking statements are subject to risks and uncertainties including, but not limited to, the following:

- our ability to predict the performance of our film and television content, or predict consumer tastes;
- our ability to maintain and renew affiliation agreements and content licensing agreements for EPIX and our other channels;
- our ability to predict the extent of and manage the impact of the COVID-19 pandemic on our businesses, operations and financial results, and those of our key vendors, distributors, and other partners, and manage unanticipated delays, interruptions, and governmental and regulatory actions arising out of it;
- the changing landscape around movie theater operations and in-person attendance, which have been severely disrupted and limited, and the significant financial distress facing certain theater operators;
- our ability to realize the anticipated benefit from acquisitions, business combinations, joint ventures and other similar transactions. No assurance can be given that such transactions will be successfully integrated and/or operated by us to the extent required, or that we will realize potential revenue enhancements, cost savings, operational efficiencies or other benefits. Additionally, there can be no assurance that such transactions will not adversely affect our results of operations, cash flows or financial condition, and any such transaction could result in an impairment of our investment, goodwill and/or other intangible assets;
- our ability to exploit emerging and evolving technologies, including alternative forms of content and delivery, and the storage of content;
- our ability to finance and produce film and television content, and to do so in accordance with the anticipated schedule or budget, or with the creative talent anticipated to be included in the projects;
- our ability to complete and release or deliver, as applicable, feature film and television content in accordance with our anticipated release schedule;
- increasing costs for producing and marketing feature films and television content;
- our ability to acquire film and television content on favorable terms;
- our ability to exploit our library of film and television content;
- our ability to successfully operate our businesses in highly competitive industries in which our competitors may be larger and/or more diversified;
- our available liquidity and access to capital;
- our ability to attract, retain and successfully replace senior management personnel and other key employees;
- uncertainty from the expected discontinuance of LIBOR and transition to another interest rate benchmark;
- piracy of film and television content;
- the need to protect and defend against intellectual property claims;
- potential risks of liability claims for our content;
- the impact of strikes or other union job actions;
- risks of doing business internationally, including, but not limited to, potential sanctions or other limitations on business with or getting funds out of China;
- inflation, deflation, and volatility in interest rates, foreign exchange rates, or other rates or prices; and

- the impact of anticipated and unanticipated global events, geopolitical situations and entertainment-industry specific events.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur.

You should read this report with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect. We do not intend, and undertake no obligation, to update any forward-looking information to reflect actual results or future events or circumstances, except as required by law. Moreover, we operate in a very competitive and changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual future results, levels of activity, performance and events and circumstances to differ materially and adversely from those anticipated or implied in the forward-looking statements.

## Company Background and Business Overview

### Overview

MGM Holdings Inc. (“MGM Holdings,” “MGM,” the “Company,” “we,” “us,” or “our”) is a leading entertainment company focused on the production and global distribution of film and television content across all platforms. We have one of the most well-known brands in the industry with globally recognized film franchises and television content, a broad collection of valuable intellectual property and commercially successful and critically acclaimed content.

We have historically generated revenue from the exploitation of our content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. We also generate revenue from the licensing of our content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities. Our operations include the development, production and financing of feature films and television content and the worldwide distribution of entertainment content primarily through television and digital distribution.

We also own EPIX Entertainment LLC which operates EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand, 'TV Everywhere' and over-the-top (OTT) service and is currently available in the United States (“U.S.”) and Puerto Rico. EPIX also licenses content to subscription video-on-demand operators. In addition, we currently own or hold interests in an MGM-branded channel in the U.S. and a pay television network in Brazil.

We control one of the world’s deepest libraries of premium film and television content. Our film content library includes approximately 4,000 titles, including the *James Bond*, *The Hobbit*, *Rocky/Creed*, *RoboCop* and *Pink Panther* franchises, as well as *The Silence of the Lambs*, *The Magnificent Seven*, *Four Weddings and a Funeral* and many other highly recognizable titles. Our film content library also includes rights to films that have received more than 180 Academy Awards, including 12 Best Picture Awards. Our television content library includes approximately 17,000 episodes of programming, including *Stargate SG-1*, which was one of the longest running science fiction series in U.S. television history, *Stargate Atlantis*, *Stargate Universe*, *Vikings*, *Fargo*, *The Handmaid’s Tale*, *Get Shorty*, *Condor*, *Clarice*, *Fame*, *American Gladiators*, *Teen Wolf* and *In the Heat of the Night*, as well as our rights to or income from prominent unscripted shows including *The Voice*, *Survivor*, *Shark Tank*, *Live Rescue*, *Eco-Challenge*, *Are You Smarter Than a 5<sup>th</sup> Grader*, *Beat Shazam*, *The Real Housewives of Beverly Hills*, *The Hills*, and other titles.

### Business

#### *Potential impacts of the COVID-19 pandemic*

Our business has been negatively affected by the COVID-19 pandemic and measures to prevent its spread, including, among other things, the closure of theaters, suspension of content production activities and increased costs necessary to resume production activities. This business disruption had a materially negative effect on our results of operations in 2020 and is expected to have a continuing effect on 2021. This could lead to impairments of our assets, including film and television content, investments, goodwill and/or non-content related intangible assets.

With most movie theaters having closed worldwide and others experiencing significantly diminished capacity during the pandemic, we delayed the theatrical distribution for certain of our films, both domestically and internationally, and altered our distribution strategy for some of our films. The ultimate profitability of any film subject to an alternative distribution strategy could materially differ from the expected profitability previously forecasted from historical distribution windows.

The COVID-19-related disruption to the global economy and the entertainment industry in particular could cause some of our vendors to go out of business. In addition, due to the delay in content production activities, the future demand for production crews, talent and other production-related vendors and resources could increase substantially. The resulting supply constraints could (a) significantly increase costs and/or further delay our

productions, (b) result in content asset impairments and other charges, and (c) change the timing and amount of cash flows and future earnings associated with content production activity.

### ***Production of film and television content***

***Film Content.*** We are involved in the development, production and acquisition of film content, and for certain films, we participate with third parties through co-production arrangements to produce, co-finance and distribute our content, as well as content developed by our partners. We have numerous feature films in various stages of development, production, post-production and/or awaiting release, including, but not limited to, the 25<sup>th</sup> installment of the *James Bond* franchise *No Time to Die*, *The Addams Family* sequel, *Adrift*, the Aretha Franklin biopic *Respect*, *Boys in the Boat*, *Candyman*, *Creed III*, *Cyrano*, *Dark Harvest*, *Dog*, the Peggy Lee biopic *Fever*, *Fiddler on the Roof*, the third installment in the *G.I. Joe* franchise *Snake Eyes*, *House of Gucci*, *Landscape With Invisible Hands*, *Legally Blonde 3*, *On a Wing and a Prayer*, *Porgy and Bess*, *RoboCop Returns*, *Samaritan*, *Thomas Crown Affair*, *Thirteen Lives*, *Three Thousand Years of Longing*, *Tomb Raider 2*, *The Water Dancer*, *What If?*, *Women Talking*, and an untitled Paul Thomas Anderson film.

We delayed the worldwide theatrical release of *No Time To Die*, the 25th installment in the *James Bond* franchise, due to the COVID-19 pandemic and measures to prevent its spread, including, among other things, the closure of theaters. After careful consideration and thorough evaluation of the global theatrical marketplace and the significant downturn of business in key markets, we moved the anticipated release date to October 2021. In addition, we moved the release date for *Candyman* and *Respect* to August 2021. We believe that delaying the theatrical release will best position these films for success worldwide, although we will incur higher marketing costs as a result of the moves.

***Television Content.*** We have numerous successful scripted television series and unscripted television shows that we are producing and/or distributing, as well as a deep pipeline of new scripted and unscripted content. We are focused on continuing to make strategic investments in our creative and production capabilities to meaningfully grow our television content pipeline. As a result, we successfully increased the aggregate number of scripted and unscripted shows delivered in the past several years from 21 shows in 2017, to 31 shows in 2018 and 41 shows in 2019. This reflected a substantial increase in the total number of episodes delivered in each year, from 496 episodes in 2017, to 792 episodes in 2018 and 981 episodes in 2019. Due to the production delays caused by the COVID-19 pandemic and the global measures to prevent its spread, television content deliveries for 2020 and 2021 have been negatively impacted. Based on information currently available to us, we now anticipate that 2022 will reflect a return to growth in new television content deliveries.

***Scripted series.*** We control distribution rights on a worldwide basis (excluding Canada) to the award-winning television series *Vikings*. The first half of the 20-episode sixth season of *Vikings* premiered on History in December 2019. The second half of the sixth season premiered on Amazon Prime Video in December 2020. We also announced the creation of a new *Vikings* series, entitled *Vikings: Valhalla*, which is currently in production for Netflix.

*The Handmaid's Tale* continues to be a huge success, having received an incredible 15 Emmy Awards including Outstanding Drama Series, two Golden Globe awards including Best Television Series Drama, plus the Peabody Award, a BAFTA award and many other distinguished awards. Based on its continued success, Hulu renewed *The Handmaid's Tale* for a fourth season that premiered in April 2021 and a fifth season that is expected to commence production in 2022.

*Fargo* has completed four seasons on FX and has received a total of 52 Emmy nominations (winning six) and eleven Golden Globe nominations (winning three).

We produced *Clarice* for CBS which premiered in February 2021, *Perpetual Grace*, *LTD* and season 3 of *Get Shorty* for EPIX, as well as season 1 of *Four Weddings and a Funeral* for Hulu and season 2 of *Condor*, which will premiere on EPIX in 2021. We have also completed production on season 2 of *Luis Miguel: La Serie* for Netflix, which premiered in April 2021. We have several other internally-developed scripted television series in advanced stages of development and production, including *Wednesday*, a series based on the *Addams Family* character Wednesday Addams for Netflix, that we expect to deliver in future periods.

**Unscripted shows.** We have numerous successful and enduring unscripted television shows that we are currently producing. *The Voice* premiered its 20<sup>th</sup> season in March 2021. *The Voice* won the Emmy Award for Outstanding Reality Competition Program for three consecutive years from 2015 through 2017 and was nominated for six Emmy Awards in 2020, including Outstanding Reality Competition Program. *Survivor* has been renewed by CBS for seasons 41 and 42 and is currently in production. *Shark Tank* premiered its 12<sup>th</sup> season on ABC in October 2020 and was nominated for two Emmy Awards in 2020. We also produce many other unscripted television shows, including *Beat Shazam* for FOX, the endurance race *World's Toughest Race: Eco-Challenge* with Bear Grylls, which premiered on Amazon Prime Video in August 2020, and *Are You Smarter Than a 5<sup>th</sup> Grader* for Nickelodeon. In addition, we produced several nationally syndicated daytime courtroom shows, *Couples Court with The Cutlers*, *Personal Injury Court*, and *Lauren Lake's Paternity Court*, which won the 2019 Daytime Emmy Award for Outstanding Legal/Courtroom Program.

In July 2017, we acquired the assets of Evolution Film & Tape, Inc. ("Evolution"), which includes successful unscripted shows such as *The Real Housewives of Orange County*, which premiered its 15<sup>th</sup> season in October 2020; *The Real Housewives of Beverly Hills*, which aired its 10<sup>th</sup> season in 2020 and an 11<sup>th</sup> season is expected to premiere in May 2021; and *Vanderpump Rules*, which aired its 8<sup>th</sup> season in 2020 and a 9<sup>th</sup> season is expected to air in 2021. In addition, we also produce *Botched* and *Overserved With Lisa Vanderpump* for the E! network, *The Hills: New Beginnings* for MTV, *The Big Shot With Bethenny*, starring Bethenny Frankel, for HBO Max, and *Unprotected Sets* for EPIX.

In June 2018, we acquired Big Fish Entertainment LLC ("Big Fish"), further augmenting our television content segment with a slate of successful unscripted shows including popular live reality shows such as *Live Rescue*, *Rescue Cam* and *America's Top Dog*, which we produce for A&E and *Animal ER Live*, which we produce for National Geographic. In addition, we produced *Amy Schumer Learns to Cook* and *Kitchen Crash* for Food Network, *Martha Knows Best* for HGTV and *Hustle & Soul* for WE tv.

We also have a robust slate of unscripted television content in various stages of development and production that we expect to deliver in future periods.

**EPIX.** We are developing, producing and acquiring original programming for EPIX, including targeted scripted series, unscripted shows and docuseries. We are focused on investing in compelling content to create a consistent presence of original programming for EPIX that augments the strong pipeline of theatrical releases and library content that currently exist on the platform. During 2019, EPIX premiered several new original series, including: *Perpetual Grace*, *LTD* starring Sir Ben Kingsley and produced by MGM Television; *Pennyworth*, a dark telling of the superhero origins of Batman's legendary butler, Alfred Pennyworth, from Warner Bros. and DC Comics; *NFL: The Grind*, produced by NFL Films; and *Godfather of Harlem*, a 10-episode gangster crime drama starring Forest Whitaker that won the 2020 Emmy Award for Outstanding Main Title Design. In addition, during 2020 EPIX premiered new scripted series *Belgravia*, *War of the Worlds*, as well as season 2 of *NFL: The Grind* and other new shows such as *Helter Skelter*, *Slow Burn*, *Laurel Canyon* and *Enslaved*. We also anticipate a robust pipeline of original programming for 2021, including season 2 of *Pennyworth*, as well as season 1 of *Chapelwaite* and season 1 of *Bridge & Tunnel*, both produced by EPIX Studios LLC, plus season 2 of *Godfather of Harlem*, *War of the Worlds* and *Condor*, which is produced by MGM Television.

## ***Distribution of film and television content***

### ***Theatrical Distribution***

In October 2017, together with Annapurna Releasing, LLC ("Annapurna"), we formed a joint venture that controls and finances the U.S. theatrical marketing and distribution of certain MGM and Annapurna films. Films from MGM, Orion Pictures and Annapurna are distributed under each partner's respective banner and the "United Artists Releasing" banner. Refer to *Joint Ventures* below for further discussion. During 2018, the joint venture released three MGM films, including *Death Wish*, *Operation Finale* and our successful franchise film, *Creed II*, which achieved the highest ever opening U.S. box office for a live-action film released during Thanksgiving. During 2019, the joint venture released four films from MGM and Orion: *Fighting with My Family*, *The Hustle*, *Child's Play* and *The Addams Family*. During 2020, the joint venture released four films from MGM and Orion: *Gretel & Hansel*, as well as *Valley Girl*, *Bill & Ted Face the Music* and *The Wolf of Snow Hollow*, each of which opened in a very limited number of theaters due to the COVID-19 pandemic. In the second half of 2021, we

currently anticipate a robust slate of films to be theatrically released by United Artists Releasing, headlined by *No Time to Die* and *The Addams Family* sequel in October 2021, followed by *House of Gucci*, an untitled Paul Thomas Anderson film, and *Cyrano*. However, due to the closure of theaters resulting from the COVID-19 pandemic, we have released certain films using alternative distribution models, including premium video-on-demand (“PVOD”) distribution and direct sales to SVOD platforms. Revenue from these distribution models is included within Television Distribution.

Orion Pictures, which was newly relaunched in August 2020, is our in-house creative team focused exclusively on underrepresented voices and authentic storytelling in film with a focus on developing, producing and acquiring feature films that amplify underserved voices, both in front of and behind the camera. *What If* and *Women Talking*, the first two films from the newly relaunched Orion Pictures are currently scheduled to commence production in the summer of 2021.

In October 2020, we announced the relaunch of American International Pictures and the domestic acquisition of Tate Taylor’s *Breaking News in Yuba County* that we released in February 2021. In the U.S., *Breaking News in Yuba County* was released theatrically via our joint venture distribution company United Artists Releasing and distributed by MGM in all downstream media.

For films that are theatrically distributed in the U.S. under the MGM, United Artists Releasing, Orion Pictures or American International Pictures banners, we will utilize the services of other distributors to theatrically release our films outside of the U.S. These arrangements allow us to distribute new releases by utilizing third parties to book theaters and execute marketing campaigns and promotions in certain international markets in return for distribution fees. While third parties provide theatrical distribution services in such territories on a film-by-film basis, we often have significant involvement in the decision process regarding key elements of distribution, such as the creation of marketing campaigns and the timing of the film release schedule, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical distribution. For our co-produced films, our co-production partner generally provides worldwide theatrical distribution services for the applicable film, though for certain films in certain territories (including the U.S.) we may distribute the film under the MGM banner and/or utilize the services of other distributors. We released five co-produced films theatrically during 2018. We released *Tomb Raider* in March 2018 with our co-production partner Warner Bros. Pictures; *Sherlock Gnomes* in March 2018 with our co-production partner Paramount Pictures; *Overboard* in May 2018 with our co-production partner Pantelion Films; *A Star is Born* in October 2018 with our co-production partner Warner Bros. Pictures; and *The Girl in the Spider’s Web* in November 2018 with our co-production partner Sony Pictures. In May 2019, we released *The Sun is Also a Star* with our co-production partner Warner Bros. Pictures. In 2021, we expect to release *Snake Eyes* with our co-production partner Paramount Pictures.

In addition, we have multi-year, multi-picture co-financing arrangements with BRON Studios (“BRON”), whereby BRON co-finances certain films from MGM and Orion Pictures, including titles from our film slates for 2019 (*Child’s Play* and *The Addams Family*), 2020 (*Gretel & Hansel*), 2021 (*Respect*, *Candyman*, *The Addams Family* sequel, *House of Gucci*, *Cyrano* and an untitled Paul Thomas Anderson film) and 2022 (*Thirteen Lives*), as well as certain other films that may be released in future years. For all films co-financed by BRON, MGM controls worldwide distribution rights in all markets.

### ***Television Distribution***

MGM has an in-house television licensing and distribution organization. Our feature film and television content are licensed globally on an individual basis and through output agreements. Output agreements require the licensee to license the Company’s recently released film content for a defined period of time with license fees that are typically based on U.S. or international theatrical box office performance metrics. We license our film and television content to premium pay, basic cable and free television channels, as well as digitally to (i) subscription-on-demand (“SVOD”) platforms such as Amazon Prime Video, Hulu and Netflix, (ii) advertiser-supported video-on-demand (“AVOD”) services such as YouTube and Roku, and (iii) transactional video-on-demand (“TVOD”), including PVOD, providers such as iTunes and Amazon Prime Video that allow consumers to rent our content on a per exhibition basis. We believe that increased broadband penetration, shifting consumer preferences to viewing

content on-demand (targeted content at no scheduled time) and on the go (via mobile devices) as well as the continued global expansion of on-demand platforms will provide continued revenue growth for MGM in this sector.

To support MGM's global distribution business and the content needs of its licensees, MGM has an in-house feature film and television content acquisition team that opportunistically acquires distribution rights from third parties. In addition, we have an international co-production team that selectively partners with third parties to co-produce and finance certain film and television content while retaining key distribution rights. These complementary businesses provide us with strategic distribution rights to new content that further bolsters our global film and television content distribution activity.

### ***Home Entertainment Distribution***

Home entertainment distribution includes the sales, marketing and promotion of content for physical distribution (DVD, Blu-ray and 4K Blu-ray discs) and marketing and promotion in connection with electronic sell-through ("EST"). Through June 30, 2020, Twentieth Century Fox Home Entertainment ("Fox"), which is now 20<sup>th</sup> Century Studios Home Entertainment, a subsidiary of The Walt Disney Company ("Disney"), provided our physical home entertainment distribution on a worldwide basis (excluding certain territories) for a substantial number of our feature films and television series. Our physical home entertainment distribution agreement with Fox expired on June 30, 2020 and on July 1, 2020, Warner Bros. Home Entertainment ("Warner Bros.") became our physical home entertainment distributor on a worldwide basis (excluding certain territories). Universal Pictures Home Entertainment ("Universal") provides our physical home entertainment distribution on a worldwide basis (excluding certain territories) for certain recently released films, including *Operation Finale*, *Fighting With My Family*, *The Hustle*, *The Addams Family* and *Gretel & Hansel*. In addition, for certain films, our co-production partners control physical home entertainment distribution rights. For example, Sony Pictures Entertainment, Inc. ("Sony") is the physical home entertainment distributor for films in the *21 Jump Street* franchise, *The Magnificent Seven* and *The Girl in the Spider's Web*; Lions Gate Entertainment Corporation ("Lionsgate") is the physical home entertainment distributor for *Overboard*; Warner Bros. is the physical home entertainment distributor for *A Star is Born*, *Barbershop: The Next Cut*, *The Hobbit* trilogy, the *Creed* franchise, *Everything, Everything*, *How to be Single*, *Max, Me Before You*, *The Sun is Also a Star* and *Tomb Raider*; Fox is the physical home entertainment distributor for *Poltergeist*; and Paramount Pictures Corporation ("Paramount") is the physical home entertainment distributor for *Hercules*, *Sherlock Gnomes* and *Ben-Hur*. EST distribution rights for these and other co-financed films may be controlled by us or our partners depending on the terms of the applicable co-financing and distribution agreement.

As with theatrical distribution controlled by third parties, while we use the physical distribution services of third parties, we often have significant involvement in the decision-making process regarding key elements of distribution, including the creation and execution of marketing campaigns, sku configuration, pricing levels and the timing of releases, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical home entertainment distribution.

Industry revenue from the physical home entertainment market continues to decline due to changes in consumer preferences and behavior, increased competition and pricing pressure. However, consumers are increasingly viewing content on an on-demand or time-delayed basis on televisions (via smart televisions, set-top boxes, Blu-ray players, gaming consoles and other media devices), personal computers, and handheld and mobile devices. As a result, we continue to see growth in SVOD, TVOD/PVOD, EST and other forms of electronic delivery and streaming services (see *Television Distribution* above) across a broad range of platforms. These digital formats typically have a higher margin than physical formats, largely due to the expense associated with the production, packaging and delivery of physical media relative to digital distribution.

### ***Ancillary Businesses***

We license film and television content and other intellectual property rights for use in interactive games and consumer products. Prominent properties that we license in this regard include *James Bond*, *Pink Panther*, *Stargate*, *Rocky/Creed*, and *RoboCop*.

We also control music publishing rights to various compositions featured in our film and television content, as well as the soundtrack, master use and synchronization licensing rights to many properties. We exploit these

rights through third-party licensing of publishing, soundtrack, master use and synchronization rights. Beginning March 31, 2019, we have an agreement with Universal Music Publishing Group (“UMPG”) under which UMPG administers much of this licensing.

We license film clips, still images, and other elements from our film and television content for use in advertisements, feature films and other forms of media. We also license rights to certain properties for use in on-stage productions.

### ***Media Networks***

We distribute feature films and television content to audiences in the U.S. and certain international territories through our wholly-owned television channels. Currently, we own and operate EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand, 'TV Everywhere' and OTT service, and is currently available in the U.S. and Puerto Rico. EPIX also licenses content to SVOD operators.

In addition, we own and operate an MGM-branded channel in the U.S., MGM HD, as well as several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada, plus a recently launched SVOD service in Latin America. In October 2020, we sold our two digital networks, ThisTV and LightTV, to Allen Media Group.

### ***Joint Ventures***

*U.S. Theatrical Distribution Joint Venture.* In October 2017, together with Annapurna, we formed a joint venture that controls and finances the U.S. theatrical marketing and distribution of certain MGM and Annapurna films. Films from MGM, Orion Pictures and Annapurna are distributed under each partner’s respective banner and the “United Artists Releasing” banner. Based on the underlying terms of the joint venture arrangement, we account for our share of certain profits and losses of the joint venture using the equity method of accounting and account for the U.S. theatrical marketing and distribution results for MGM and Orion Pictures films distributed by the joint venture on a net basis similar to our accounting for co-produced film content (refer to *Critical Accounting Policies and Estimates – Revenue Recognition* below for further discussion). We also make monthly capital contributions to the joint venture to fund our equitable share of overhead and other operating expenses. For each of the three month periods ended March 31, 2021 and 2020, our total capital contributions including accruals amounted \$3.5 million.

*Telecine Programacao de Filmes Ltda.* We have an equity investment in Telecine Programacao de Filmes Ltda. (“Telecine”), a joint venture with Globo Comunicacao e Participacoes S.A. (“Globo”), Paramount, Disney and NBC Universal, Inc. that operates a pay television network in Brazil. Telecine is not consolidated in our financial statements and we do not record our share of the net income of Telecine in our financial statements since our investment is less than 20% and we do not exercise significant influence over Telecine’s operating or financial policies. As there is no readily determinable fair value, our investment is accounted for at cost less impairment, if any, and adjusted for any observable price changes. We recognize income from our investment in Telecine when we receive dividends. In addition, we recognize television licensing revenue from content that we license to Telecine under a multi-year licensing agreement.

*Non-Equity Method Investments.* The Company recognized no dividend income from non-equity method investments during the three month periods ended March 31, 2021 and 2020.

### **Corporate Information**

MGM Holdings is a Delaware corporation and is the ultimate parent company of the MGM family of companies, including its subsidiary Metro-Goldwyn-Mayer Inc. (“MGM Inc.”).

Our corporate headquarters is located at 245 North Beverly Drive, Beverly Hills, California 90210 and our telephone number at that address is (310) 449-3000. Our website address is [www.mgm.com](http://www.mgm.com).

At March 31, 2021, 43,096,379 shares of Class A common stock, par value \$0.01 per share, were outstanding. At December 31, 2020, 43,089,901 shares of Class A common stock, par value \$0.01 per share, were outstanding. The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust, located at 1 State Street, 30<sup>th</sup> Floor, New York, New York 10004-1561. Contact and additional information regarding Continental Stock Transfer & Trust can be found at [www.continentalstock.com](http://www.continentalstock.com).

## **Facilities**

We lease approximately 151,000 square feet of office space, plus related parking and storage facilities, for our corporate headquarters in Beverly Hills, California. We also lease approximately 50,500 square feet of office space in New York, New York that is primarily used for EPIX; 63,632 square feet of office space in New York, New York that is used for Big Fish; 25,883 square feet of office space in West Hollywood, California that is licensed to our U.S. theatrical distribution joint venture; 26,000 square feet of office space in Burbank, California that is used for Evolution; and additional office space in Beverly Hills and Culver City, California. In addition, we have television production/distribution offices in Miami, London, Munich, Sydney and Toronto. On occasion, we may lease studio facilities, stages and other space from unaffiliated parties. Such leases are generally on an as-needed basis in connection with the production of various film, television and other projects.

## **Board of Directors and Office of the CEO**

The members of the Board of Directors of MGM Holdings (the “Board”) are Kevin Ulrich (Chairman), James Dondero, David Krane, Amy Pascal, Fredric Reynolds and Nancy Tellem. As of March 31, 2021, Anchorage Capital Partners, Highland Capital Management and Davidson, Kempner Capital Management each individually, or together with their respective affiliated entities, owned more than 10% of the issued and outstanding shares of common stock of MGM Holdings. Effective March 19, 2018 and following the exit of our former Chief Executive Officer (“CEO”), the Board established an Office of the CEO, comprised of a group of the Company’s senior leaders and division heads.

## **Affiliation with a Broker-Dealer**

MGM Holdings is not affiliated, directly or indirectly, with any broker-dealer or any associated person of a broker-dealer.

MGM Holdings Inc.

Consolidated Balance Sheets  
(Unaudited, in thousands, except share data)

	March 31, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 296,251	\$ 284,109
Accounts receivable, net	516,435	490,310
Current income taxes receivable	1,398	1,988
Other current assets and prepaid program rights	16,079	40,290
Program rights, net	–	162,956
Total current assets	<u>830,163</u>	<u>979,653</u>
Noncurrent assets:		
Accounts receivable, net	218,986	212,514
Other assets and prepaid program rights	122,246	100,244
Film and television costs and program rights, net	2,015,584	1,902,316
Investments in affiliates	63,276	61,153
Property and equipment, net	27,810	29,281
Goodwill	534,424	534,424
Other non-content intangible assets, net	310,434	316,552
Total noncurrent assets	<u>3,292,760</u>	<u>3,156,484</u>
Total assets	<u>\$ 4,122,923</u>	<u>\$ 4,136,137</u>
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 204,430	\$ 237,436
Accrued participants' share	71,619	91,014
Current income taxes payable	6,918	7,179
Program obligations	61,485	58,264
Corporate debt	5,159	5,154
Advances and deferred revenue	76,981	86,726
Other current liabilities	47,581	50,957
Total current liabilities	<u>474,173</u>	<u>536,730</u>
Noncurrent liabilities:		
Accrued liabilities	59,583	74,197
Accrued participants' share	169,983	167,266
Deferred income taxes payable	26,369	21,393
Corporate debt	2,010,551	1,981,289
Advances and deferred revenue	13,097	9,690
Other liabilities and program obligations	88,116	94,606
Total noncurrent liabilities	<u>2,367,699</u>	<u>2,348,441</u>
Total liabilities	<u>2,841,872</u>	<u>2,885,171</u>
Commitments and contingencies		
Equity:		
Class A common stock, \$0.01 par value, 110,000,000 shares authorized, 79,172,601 and 79,162,612 shares issued, respectively, and 43,096,379 and 43,089,901 shares outstanding, respectively	792	791
Additional paid-in capital	2,157,649	2,155,113
Retained earnings	1,117,487	1,094,160
Accumulated other comprehensive loss	(25,367)	(29,838)
Treasury stock, at cost, 36,076,222 and 36,072,711 shares, respectively	(1,970,268)	(1,969,938)
Total MGM Holdings Inc. stockholders' equity	<u>1,280,293</u>	<u>1,250,288</u>
Noncontrolling interests	758	678
Total equity	<u>1,281,051</u>	<u>1,250,966</u>
Total liabilities and equity	<u>\$ 4,122,923</u>	<u>\$ 4,136,137</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MGM Holdings Inc.

Consolidated Statements of Income  
(Unaudited, in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 348,629	\$ 403,361
Expenses:		
Operating	201,644	238,523
Distribution and marketing	16,871	32,631
General and administrative	68,010	66,654
Depreciation and non-content amortization	10,491	12,387
Total expenses	<u>297,016</u>	<u>350,195</u>
Operating income	51,613	53,166
Equity in net earnings (losses) of affiliates	(1,426)	6,160
Interest expense:		
Contractual interest expense	(17,652)	(21,714)
Amortization of deferred financing costs, original issue discount and other interest costs	(1,684)	(1,696)
Interest income	661	1,225
Other income (expense), net	<u>(887)</u>	<u>18</u>
Income before income taxes	30,625	37,159
Income tax provision	(7,218)	(7,903)
Net income	<u>23,407</u>	<u>29,256</u>
Less: Net income (loss) attributable to noncontrolling interests	80	(566)
Net income attributable to MGM Holdings Inc.	<u>\$ 23,327</u>	<u>\$ 29,822</u>

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

MGM Holdings Inc.

Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income	\$ 23,407	\$ 29,256
Other comprehensive income (loss), net of tax:		
Change in unrealized loss on securities	–	(67)
Unrealized gain (loss) on derivative instruments	3,311	(15,680)
Retirement plan adjustments	42	53
Foreign currency translation adjustments	1,118	(975)
Other comprehensive income (loss)	<u>4,471</u>	<u>(16,669)</u>
Less: Comprehensive income (loss) attributable to noncontrolling interests	<u>80</u>	<u>(566)</u>
Comprehensive income attributable to MGM Holdings Inc.	<u>\$ 27,798</u>	<u>\$ 13,153</u>

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

MGM Holdings Inc.

Consolidated Statement of Equity  
(Unaudited, in thousands, except share data)

	MGM Holdings Inc. Stockholders' Equity								
	Common Stock Class A	Additional	Retained	Accumulated	Treasury	MGM	Noncontrolling	Total	
	Number	Par	Paid-in	Other	Stock	Holdings Inc.	Interests	Equity	
	of Shares	Value	Capital	Comprehensive	Loss	Stockholders'		Equity	
				Earnings		Equity			Equity
Balance, January 1, 2021	43,089,901	\$ 791	\$ 2,155,113	\$ 1,094,160	\$ (29,838)	\$ (1,969,938)	\$ 1,250,288	\$ 678	\$ 1,250,966
Purchase of treasury stock	(3,511)	–	–	–	–	(330)	(330)	–	(330)
Issuance of common stock	9,989	1	–	–	–	–	1	–	1
Stock-based compensation expense	–	–	2,536	–	–	–	2,536	–	2,536
Net income	–	–	–	23,327	–	–	23,327	80	23,407
Other comprehensive income	–	–	–	–	4,471	–	4,471	–	4,471
Balance, March 31, 2021	<b>43,096,379</b>	<b>\$ 792</b>	<b>\$ 2,157,649</b>	<b>\$ 1,117,487</b>	<b>\$ (25,367)</b>	<b>\$ (1,970,268)</b>	<b>\$ 1,280,293</b>	<b>\$ 758</b>	<b>\$ 1,281,051</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MGM Holdings Inc.

Consolidated Statements of Cash Flows  
(Unaudited, in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Net income	\$ 23,407	\$ 29,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs and program rights, net	(98,975)	(168,935)
Amortization of film and television costs and program rights	151,160	154,055
Depreciation and non-content amortization	10,491	12,387
Amortization of deferred financing costs and original issue discount	1,586	1,681
Stock-based compensation expense	2,536	3,370
Provision for doubtful accounts	550	3,152
Undistributed net losses (earnings) of affiliates	1,426	(6,160)
Other non-cash expenses	54	69
Changes in operating assets and liabilities:		
Accounts receivable, net	(33,146)	(68,064)
Current income taxes receivable	590	620
Other assets and prepaid program rights	(676)	11,131
Accounts payable, accrued and other liabilities	(52,191)	6,173
Accrued participants' share	(16,678)	(1,189)
Current and deferred income taxes payable	3,380	11,399
Program obligations	1,579	(4,414)
Advances and deferred revenue	(6,337)	29,053
Net cash provided by (used in) operating activities	<u>(11,244)</u>	<u>13,584</u>
<b>Investing activities</b>		
Investments in affiliates	(3,549)	(5,032)
Sale of investments	-	633
Additions to property and equipment	(2,902)	(2,620)
Net cash used in investing activities	<u>(6,451)</u>	<u>(7,019)</u>
<b>Financing activities</b>		
Repayments of Term Loans	(1,000)	(1,000)
Borrowings from Revolving Credit Facility	60,000	360,000
Repayments of Revolving Credit Facility	(30,000)	(25,000)
Principal payments of Finance Leases	(286)	(282)
Issuance of common stock	1	1
Purchase of treasury stock	(330)	(126,914)
Net cash provided by financing activities	<u>28,385</u>	<u>206,805</u>
Net change in cash and cash equivalents from operating, investing and financing activities	<u>10,690</u>	213,370
Net change in cash due to foreign currency fluctuations	<u>1,452</u>	(1,266)
Net change in cash and cash equivalents	<u>12,142</u>	212,104
Cash and cash equivalents at beginning of year	<u>284,109</u>	243,189
Cash and cash equivalents at end of period	<u>\$ 296,251</u>	<u>\$ 455,293</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

# MGM Holdings Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

### **Note 1—Organization, Business and Summary of Significant Accounting Policies**

*Organization.* The accompanying unaudited condensed consolidated financial statements include the accounts of MGM Holdings Inc. (“MGM”), a Delaware corporation, and its direct, indirect and controlled majority-owned subsidiaries, including Metro-Goldwyn-Mayer Inc. (“MGM Inc.”), (collectively, the “Company”).

*Business.* The Company is a leading entertainment company. The Company’s operations include the development, production and financing of feature films and television content and the worldwide distribution of entertainment content primarily through television and digital distribution. The Company also distributes film and television content produced or financed, in whole or in part, by third parties. In addition, the Company generates revenue from the licensing of content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities.

The Company also owns EPIX Entertainment LLC, which operates EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand, “TV Everywhere” and over-the-top service (“OTT”), and is currently available in the United States (“U.S.”), and Puerto Rico. EPIX also licenses content to subscription video-on-demand (“SVOD”) operators. The Company also owns or holds interests in MGM-branded channels in the U.S., as well as interests in pay television networks in the U.S. and Brazil. In addition, the Company also operates several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada.

The Company’s business has been negatively affected by the COVID-19 pandemic and measures to prevent its spread, including, among other things, the closure of theaters, suspension of content production activities and increased costs necessary to resume production activities. The Company expects this business disruption to have a materially negative effect on its results of operations over the near to medium term. This could lead to impairments of the Company’s assets, including film and television costs, investments in affiliates, goodwill and/or non-content intangible assets.

With most movie theaters having closed worldwide and others experiencing significantly diminished capacity during the pandemic, the Company delayed the theatrical distribution for certain of its films, both domestically and internationally, and could alter the distribution strategy for some of its films. The ultimate profitability of any film subject to an alternative distribution strategy could materially differ from the expected profitability previously forecasted from historical distribution windows.

*Basis of Presentation and Principles of Consolidation.* The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) for interim financial statements. Accordingly, these financial statements do not include certain information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments necessary for a fair presentation of these financial statements. The balance sheet at December 31, 2020 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These interim financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2020. There have been no material changes in the Company’s significant accounting policies as compared to the significant accounting policies described in the Company’s audited financial statements and notes thereto for the year ended December 31, 2020.

Inventories related to home entertainment distribution are included in other current assets in the unaudited condensed consolidated classified balance sheet.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### **Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)**

In the ordinary course of business, the Company enters into various types of intercompany transactions including, but not limited to, the licensing of the Company's film and/or television content to the Company's media networks, including EPIX. Intercompany licensing revenue, programming cost amortization expense and the corresponding assets and liabilities recognized by the counterparties to these transactions are eliminated in consolidation and, therefore, do not affect the Company's unaudited condensed consolidated financial statements.

The Company's investments in affiliates, over which the Company has significant influence but not control, are accounted for using the equity method of accounting (see Note 7).

*Allowance for Doubtful Accounts.* The Company determines its allowance by monitoring its delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. Additionally, the Company records a general reserve against all customer receivables not reviewed on a specific basis. The Company charges off its receivables against the allowance when the receivable is deemed uncollectible. At March 31, 2021 and December 31, 2020, allowance for doubtful accounts aggregated \$9.9 million and \$9.5 million, respectively.

*Goodwill and Other Non-Content Intangible Assets.* Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, while intangible assets with indefinite lives, including goodwill, are not subject to amortization, but instead are tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not the asset is impaired. Goodwill and non-content intangible assets are evaluated for impairment on an annual basis or more frequently as needed, using a qualitative and/or quantitative analysis, as appropriate, in accordance with Accounting Standards Codification ("ASC") *Topic 350, Intangibles—Goodwill and Other*.

*Use of Estimates in the Preparation of Financial Statements.* The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and the related notes thereto. Amortization expense for the capitalized film and television costs of titles that are predominantly monetized individually is calculated in accordance with the individual-film-forecast method of accounting utilizing management estimates of future revenue and expenses expected to be recognized over a period not to exceed ten years from the initial broadcast date, or for a period not to exceed 20 years for acquired film and television libraries. In addition, the Company is required to make estimates regarding the utilization of its program rights and the allocation of program rights between pay television and other distribution markets for titles that are predominantly monetized as part of a film group. All estimates require management to make judgments that involve uncertainty, and any revisions to these estimates can result in significant quarter-to-quarter and year-to-year fluctuations in amortization expense. Changes to such estimates may also lead to the write down (through increased amortization expense) of film and television costs or program rights to their estimated fair value.

Other estimates include reserves for future product returns from physical home entertainment distribution, allowances for doubtful accounts receivable and other items requiring judgment. Management bases its estimates and assumptions on historical experience, current trends and other factors believed to be relevant at the time the unaudited condensed consolidated financial statements are prepared. Actual results may differ materially from those estimates and assumptions.

*Subsequent Events.* The Company evaluated, for potential recognition and disclosure, all activity and events that occurred through the date of issuance, May 20, 2021. Such review did not result in the identification of any subsequent events that would require recognition in the unaudited condensed consolidated financial statements or disclosure in the notes to these unaudited condensed consolidated financial statements.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

##### *New Accounting Pronouncements*

*Production Cost Capitalization.* On January 1, 2021, the Company adopted, on a prospective basis, ASU 2019-02, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials*, which amends the current guidance to remove the excess cost constraint previously associated with capitalized costs for episodic television series. The new guidance also includes several new disclosures meant to increase the relevancy of film cost and broadcast reporting information compared to prior guidance.

ASU 2019-02 also requires entities to determine whether a film or license agreement is predominantly monetized individually or with other films and/or license agreements as part of a film group. Such determination is made once the entity begins incurring and capitalizing film costs for that title and should be based on the Company's expectation of the title's predominant monetization strategy at that point in time. For titles that existed as of the adoption date, the Company determined whether such titles will be primarily monetized individually or as part of a film group based on the predominant monetization strategy for the remaining life of the film as of January 1, 2021 (see Note 5).

The new standard also clarifies impairment requirements, which are specific to each title's predominant monetization strategy. For those films classified as part of a film group under the new guidance, an entity must test for impairment at the film group level when circumstances indicate that the fair value of the group may be less than its unamortized cost. Any changes in estimates of how a film group will be monetized are amortized prospectively. Films predominantly monetized on their own are still assessed for impairment as they were under prior guidance, however, additional impairment indicators were added.

Additionally, the new guidance eliminates the requirement to classify film costs as a noncurrent asset and program rights as current and noncurrent assets on the balance sheet, preferring to leave the classification to management judgement. Upon adoption and on a go forward basis, the current portion of program rights and prepaid program rights will be included in film and television costs and program rights, net and other assets and prepaid program rights, respectively, as noncurrent assets. As a result, \$163.0 million of program rights classified as current as of December 31, 2020 are now included in film and television costs and program rights, net. Separately, \$20.4 million of prepaid program rights classified in other current assets as of December 31, 2020 are now included in other assets and prepaid program rights, noncurrent (see Note 5).

*Credit Losses.* In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which is intended to improve reporting of expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of information to inform such credit loss estimates. The guidance also requires that an entity measure and recognize expected credit losses for financial assets held at amortized cost. ASU 2016-13 will be effective for the Company for the annual period ended December 31, 2023 and for interim periods therein, with early adoption permitted. The Company is in the process of evaluating the impact the new standard will have, however, it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### **Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)**

*Derivatives and Hedging.* On January 1, 2021, the Company adopted ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the current hedge accounting guidance to make more financial and nonfinancial hedging strategies eligible for hedge accounting. The new guidance also amends certain presentation and disclosure requirements and changes how companies assess effectiveness by allowing a qualitative assessment, instead of quantitative analysis, for certain hedges. For such qualifying cash flow hedges, the entire change in fair value of the hedging instrument included in the assessment of hedge effectiveness will be recorded in other comprehensive income (“OCI”), and amounts deferred in OCI will be reclassified to earnings in the same income statement line item that is used to present the earnings effect of the hedged item when the hedged item affects earnings. An initial quantitative test to establish that the hedge relationship is highly effective at inception is still required. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

*Defined Benefit Plans.* In August 2018, the FASB issued ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, which amends the current reporting guidance to remove various disclosure requirements no longer considered to be cost beneficial, such as the requirement to disclose amounts in accumulated other comprehensive income expected to be recognized into net periodic benefit cost. The new guidance also adds new disclosure requirements including an explanation of the reasons for significant gains and losses related to changes in the benefit obligation. ASU 2018-14 will be effective for the Company for the annual period ended December 31, 2021 and for interim and annual periods thereafter. The Company expects the adoption of this guidance to result in additional footnote disclosures in its annual consolidated financial statements.

*Cloud Computing Arrangements.* In September 2018, the FASB issued ASU 2018-15, *Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which clarifies the current guidance to require customers in cloud computing arrangement that is a service contract to follow internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. Additionally, the guidance also specifies that any capitalized implementation costs will be amortized over the term of the hosting arrangement. ASU 2018-15 will be effective for the Company for the annual period ended December 31, 2021 and for interim and annual periods thereafter, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

*Reference Rate Reform.* In March 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which amends current contract modification and hedge accounting guidance to temporarily allow optional expedients and exceptions to ease the financial reporting burdens of the expected market transition to alternative reference rates, such as SOFR, from LIBOR and other interbank offered rates. ASU 2020-04 was effective upon issuance and can be applied through December 31, 2022. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

#### **Note 2—Revenue**

*General.* The Company’s principal sources of revenue include the exploitation of film and television content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. In addition, the Company recognizes significant affiliate and SVOD distribution revenue from the distribution of EPIX.

Revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services or goods. Revenues do not include taxes collected from customers on behalf of taxing authorities such as sales tax and value-added tax.

*Licensing Arrangements.* The Company's content licensing arrangements include fixed fee and minimum guarantee arrangements, and sales or usage based royalties.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### Note 2—Revenue (Continued)

*Fixed Fee or Minimum Guarantees.* The Company's fixed fee or minimum guarantee arrangements may, in some cases, include multiple titles, multiple license periods (windows) with a substantive period in between the windows, rights to exploitation in different media, or rights to exploitation in multiple territories, which may be considered distinct performance obligations. When these performance obligations are considered distinct, the fixed fee or minimum guarantee in the arrangement is allocated to the title, window, media right or territory as applicable, based on estimates of relative standalone selling prices. The amounts related to each performance obligation (i.e., title, window, media or territory) are recognized when the content has been delivered, and the window for the exploitation right in that territory has begun, which is the point in time at which the customer is able to begin to use and benefit from the content.

*Sales or Usage Based Royalties.* Sales or usage based royalties represent amounts due to the Company based on the “sale” or “usage” of the Company's content by the customer, and revenues are recognized at the later of when the subsequent sale or usage occurs, or the performance obligation to which some or all the sales or usage-based royalty has been allocated has been satisfied (or partially satisfied). Generally, when the Company licenses completed content (with standalone functionality, such as a movie, or television show), its performance obligation will be satisfied prior to the sale or usage. When the Company licenses intellectual property that does not have stand-alone functionality (e.g., brands, themes, logos, etc.), its performance obligation is generally satisfied in the same period as the sale or usage. The actual amounts due to the Company under these arrangements are generally not reported to the Company until after the close of the reporting period. The Company records revenue under these arrangements for the amounts due and not yet reported to the Company based on estimates of the sales or usage of these customers and pursuant to the terms of the contracts. Such estimates are based on information from the Company's customers, historical experience with similar titles and customers in that market or territory, the performance of the title in other markets, and/or data available to the Company.

*Co-production Arrangements.* Revenue from feature film and television content under the Company's various co-production and distribution arrangements is recorded in accordance with the accounting guidance governing gross versus net reporting and collaborative arrangements. The determination of the applicable accounting treatment involves judgment and is based on the Company's evaluation of the unique terms and conditions of each agreement. Revenue and expenses are recorded on a gross basis if the Company acts as a principal in a transaction, which it typically does for the distribution rights it controls. Revenue and expenses are recorded on a net basis if the Company acts as an agent in a transaction, which it typically does for the distribution rights controlled by its co-production partners. Net revenue represents gross revenue less distribution fees and expenses.

Revenue is primarily comprised of the following: theatrical and ancillary revenues which are included in the Film Content segment; Television Licensing, Home Entertainment and Other are applicable to both the Film Content and Television Content segments; and EPIX and Other Channels which are included in the Media Networks Segment.

*Theatrical.* Revenue from theatrical distribution of film content is recognized on the dates of exhibition and typically represents a percentage of theatrical box office receipts collected by the exhibitors.

*Television licensing.* Revenue from television licensing, together with related costs, is typically recognized when the film or television content is initially available to the licensee for telecast. Revenue from transactional video-on-demand and premium video-on-demand distribution is recognized in the period in which the sales transaction occurs. For scripted and unscripted television content, television licensing revenue is recognized ratably upon delivery of each episode to the licensee, even though the licensee may elect to delay the initial airing of each episode until a future date during the license period.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### **Note 2—Revenue (Continued)**

*Home entertainment.* Revenue from physical home entertainment distribution is recognized, net of reserves for estimated returns and doubtful accounts receivable, and together with related costs, in the period in which the product is shipped and is available for sale to the public. Revenue from transactional electronic sell-through distribution is recognized in the period in which the sales transaction occurs.

*Other revenue.* Other revenue primarily includes net revenue for the Company's share of the distribution proceeds earned by co-production partners for co-produced film and television content for which the Company's partners control the distribution rights in various distribution windows, including theatrical, home entertainment, television licensing and ancillary markets. Net revenue from co-produced film and television content is impacted by the timing of when a title's cumulative aggregate revenue exceeds its cumulative aggregate distribution fees and expenses.

*Ancillary.* Ancillary revenue primarily includes the licensing of film and television content and other intellectual property rights for use in interactive games and consumer products, as well as music revenue from the licensing of publishing, soundtrack, master use and synchronization rights to various compositions featured in film and television content. Revenue from the licensing of intellectual property rights for use in interactive games and consumer products is typically recognized ratably over the license period. Separately, the licensing of music rights to film and television content (with standalone functionality), is recognized at the beginning of the license period once the customer obtains and can benefit from such content.

*Media Networks.* Revenues from the Company's media networks, including EPIX, primarily include amounts earned under affiliation agreements with U.S. Multichannel Video Programming Distributors ("MVPDs"), virtual MVPDs and OTT distribution through apps and online platforms, as well as fees associated with SVOD distribution arrangements. Affiliate revenue from cable television and satellite operators, telecommunication companies and online video distributors is recognized in the period during which the channel services are provided. Revenue from OTT distribution is recognized based on the number of subscribers reported to us, or if such reporting is provided to the Company on a lag, based on the most current subscriber information available. Fees associated with SVOD distribution are recognized upon the availability of programming to the distributor. To the extent that the Company maintains an on-going performance commitment or a requirement for a minimum number of titles over a contractual term, revenue may be recognized as such obligations are satisfied, or deferred until such obligations are satisfied or the term has concluded.

*Other channels.* Other channels primarily include an MGM-branded channel in the U.S., MGM HD, as well as several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada, plus a recently launched SVOD service in Latin America. Revenue for these other channels is primarily comprised of subscriber fees, which are recorded as revenue in the period during which the channel services are provided.

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 2—Revenue (Continued)**

The following table presents revenue by segment, market, or product line for the three month periods ended March 31, 2021 and 2020 (in thousands).

	Three Months Ended March 31,	
	2021	2020
<b>Film Content</b>		
Theatrical	\$ 25	\$ 1,910
Television licensing	94,118	101,709
Home entertainment		
Electronic sell-through	11,238	11,536
Physical distribution	8,580	8,745
Other	4,247	9,308
Ancillary	5,739	5,098
Total Film Content revenue	<b>\$ 123,947</b>	<b>\$ 138,306</b>
<b>Television Content</b>		
Television licensing	\$ 105,727	\$ 149,895
Home entertainment		
Electronic sell-through	2,066	4,937
Physical distribution	1,943	2,957
Other	651	288
Total Television Content revenue	<b>\$ 110,387</b>	<b>\$ 158,077</b>
<b>Media Networks</b>		
EPIX	\$ 108,184	\$ 97,802
Other Channels	6,111	9,176
Total Media Networks revenue	<b>\$ 114,295</b>	<b>\$ 106,978</b>
<b>Total Revenue</b>	<b>\$ 348,629</b>	<b>\$ 403,361</b>

*Accounts Receivable, Contract Assets and Deferred Revenue*

At March 31, 2021 and December 31, 2020, accounts receivable, contract assets and deferred revenue were as follows (in thousands):

	March 31, 2021	December 31, 2020	Addition (Reduction)
Accounts receivable, net - current	\$ 516,435	\$ 490,310	\$ 26,125
Accounts receivable, net - noncurrent	218,986	212,514	6,472
Contract assets - current	—	1,246	(1,246)
Contract assets - noncurrent	—	—	—
Deferred revenue - current	76,981	86,726	(9,745)
Deferred revenue - noncurrent	13,097	9,690	3,407

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### **Note 2—Revenue (Continued)**

Contract assets represent the Company's conditional right to consideration for completed performance under the contract (i.e. unbilled receivables). Amounts relate primarily to contractual payment holdbacks in cases in which the Company is generally required to deliver additional episodes or seasons of television content in order to receive payment. Contract assets were immaterial and were included in current accounts receivable in the unaudited condensed consolidated balance sheet at March 31, 2021. Such amounts totaled \$1.2 million at December 31, 2020 and were included in other current assets in the consolidated balance sheet.

At March 31, 2021 and December 31, 2020, deferred revenue primarily consisted of advances related to the Company's television licensing contracts under which the related content will be available in future periods.

#### **Note 3—Leases**

*Operating Leases.* The Company has operating leases primarily for office space, datacenters, and production facilities. For operating leases, the Company recognizes rent expense on a straight-line basis over the lease term, which is included in general and administrative expenses in the unaudited condensed consolidated statements of income. The Company also subleases office space to an affiliate at arms-length which is classified as an operating lease under both lessee and lessor accounting guidance. Sublease income is recorded over the term of the lease as an offset to lease expense.

*Finance Leases.* The Company has finance leases for a satellite transponder and copiers. For finance leases, the Company recognizes interest expense on its lease liabilities using the effective interest method, which is included in amortization of deferred financing costs, original issue discount and other interest costs in the unaudited condensed consolidated statement of income for the three month periods ended March 31, 2021 and 2020. ROU assets are amortized on a straight-line basis over the lease term and such amortization is included in depreciation and non-content amortization expense in the unaudited condensed consolidated statement of income for the three month periods ended March 31, 2021 and 2020.

Leases have initial non-cancelable lease terms ranging from one to 15 years. Some of these lease arrangements include options to extend the term of the leases for up to ten years. Judgment is required when determining the minimum non-cancellable term of the lease. The Company includes options to extend or terminate the lease term only if they are reasonably certain to be exercised.

The present value of future lease payments is calculated using the risk-free-rate for a borrowing term that approximates the term of the lease. Variable lease payments that are based on an index or rate are included in the measurement of ROU assets and lease liabilities at lease inception. All other variable lease payments, including common area maintenance, parking, utilities and storage, among others, are expensed as incurred and are not included in the measurement of ROU assets and lease liabilities.

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 3—Leases (Continued)**

Operating lease costs included costs capitalized during the period for leased assets used in the production of film and television content. Short-term lease costs primarily consist of leases for studio facilities and production equipment that have a lease term of 12 months or less. The components of lease cost were as follows for the three month periods ended March 31, 2021 and 2020 (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
Operating lease cost	\$ 4,643	\$ 4,613
Finance lease cost		
Amortization of right-of-use assets	272	272
Interest on lease liabilities	6	11
Total finance lease cost	278	283
Short-term lease cost	3,571	3,075
Variable lease cost	411	953
Sublease Income	(248)	(406)
Total lease cost	<u>\$ 8,655</u>	<u>\$ 8,518</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 5,183	\$ 4,612
Operating cash flows from financing leases	6	7
Financing cash flows from financing leases	286	285
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	\$ —	\$ —
Financing leases	—	—

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 3—Leases (Continued)**

Supplemental balance sheet information related to leases was as follows (in thousands):

Category	Balance Sheet Location	March 31, 2021	December 31, 2020
Operating right-of-use assets	Other assets and prepaid program rights	\$ 76,247	\$ 80,462
Operating lease liabilities (current)	Other current liabilities	\$ 19,671	\$ 19,392
Operating lease liabilities (noncurrent)	Other liabilities and program obligations	75,715	80,725
	Total operating lease liabilities	<u>\$ 95,386</u>	<u>\$ 100,117</u>
Finance right-of-use assets	Property and equipment, net	\$ 1,297	\$ 1,570
Finance lease liabilities (current)	Corporate debt – current	\$ 1,159	\$ 1,154
Finance lease liabilities (noncurrent)	Corporate debt – noncurrent	126	417
	Total finance lease liabilities	<u>\$ 1,285</u>	<u>\$ 1,571</u>

There were no commitments for leases that have been entered into but not commenced at March 31, 2021. The weighted average remaining lease term was 5.43 years for operating leases and 1.20 years for finance leases at March 31, 2021 and 5.62 years for operating leases and 1.45 years for finance leases at December 31, 2020. The weighted average discount rate was 1.86% and 1.69% for operating and financing leases, respectively at March 31, 2021. At December 31, 2020, such rates were 1.85% and 1.69% for operating and financing leases, respectively.

The expected future payments relating to the Company's operating and finance lease liabilities at March 31, 2021 are as follows (in thousands):

	Operating Leases	Finance Leases
Nine months ending December 31, 2021	\$ 15,928	\$ 877
Year ended December 31,		
2022	19,994	419
2023	16,105	–
2024	15,371	–
2025	14,969	–
Thereafter	18,231	–
Total lease payments	<u>100,598</u>	<u>1,296</u>
Less imputed interest	<u>(5,212)</u>	<u>(11)</u>
Total	<u>\$ 95,386</u>	<u>\$ 1,285</u>

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### Note 3—Leases (Continued)

The expected future cash receipts relating to the Company's sublease at March 31, 2021 are as follows (in thousands):

	Nine Months Ended	Year Ended December 31,					Total
	December 31, 2021	2022	2023	2024	2025	Thereafter	
Operating Sublease	\$ 1,219	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,219
	<u>\$ 1,219</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,219</u>

#### Note 4—Goodwill and Other Non-Content Intangible Assets

As of March 31, 2021, the Company had goodwill of \$534.4 million, which was entirely attributable to its television content reporting unit. The Company also had other non-content intangible assets totaling \$310.4 million, net of accumulated amortization, inclusive of intangible assets from its prior acquisitions of EPIX, United Artists Media Group, Big Fish Entertainment and Evolution Media. There were no impairment indicators noted during the three month period ended March 31, 2021. Other non-content intangible assets of \$261.9 million, net of accumulated amortization, are subject to amortization and consist primarily of certain carriage, licensing and production agreements with remaining useful lives ranging from less than one to 20.8 years. Additionally, aggregate trade name-related assets valued at \$48.5 million were identified and determined to have indefinite lives. For the three month periods ended March 31, 2021 and 2020, the Company recorded amortization of identifiable intangible assets of \$6.1 million and \$8.0 million, respectively. Amortization expense for other intangible assets is included in depreciation and non-content amortization expense in the unaudited condensed consolidated statements of income.

#### Note 5—Film and Television Costs and Program Rights

*Film and Television Costs.* Film and television costs include development, production and acquisition costs for the Company's internally produced film and television titles. Such titles may be predominantly monetized individually (i.e. through traditional distribution platforms, including theatrical, home entertainment and television) or predominantly monetized as a film group (i.e. produced to be distributed alongside other titles on the Company's media networks platforms, including EPIX). For content that is predominantly monetized individually but also monetized as a film group, the Company estimates the portion of film and television costs attributable to the film group and amortizes such costs as the title is distributed by its media networks, including EPIX. A title's primary monetization strategy is determined upon commencement of production and is re-evaluated throughout the life of the title, as needed, if the monetization strategy changes.

For titles predominantly monetized individually, film and television costs, as well as participations and talent residuals, are charged against earnings and included in operating expenses in the ratio that the current period's gross revenue bears to management's estimate of total remaining ultimate gross revenue as of the beginning of the current period (the "individual film forecast method"). Ultimate revenues represent estimates of revenue expected to be recognized over a period not to exceed ten years from the initial release or broadcast date, or for a period not to exceed 20 years for acquired film and television libraries. Episodic television series with more than one season are considered to be one product for amortization purposes, and ultimate revenues include all revenues expected to be recognized over the later period of ten years from the delivery date of the first episode, or if the series is still in production, five years from the delivery date of the most recent episode. Film and television costs are stated at the lower of unamortized cost or estimated fair value. Revenue and cost forecasts are periodically reviewed by management and revised when warranted by changing conditions.

For titles predominantly monetized as a film group, please see the amortization discussion in "Licensed Program Rights" below.

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 5—Film and Television Costs and Program Rights (Continued)**

*Licensed Program Rights.* For the media networks business, licensed program rights include the costs to acquire film and television content from third parties to exhibit on EPIX. Such content is considered to be predominantly monetized as part of a film group. The costs of such program rights are amortized on a title-by-title or episode-by-episode basis over the estimated future utilization of each title. Amortization of programming costs is generally calculated based on the number of actual exhibitions during each period as a percentage of total anticipated or contractual exhibitions. Program rights may include rights to more than one exploitation window. For film and television content with multiple windows, the license fee is allocated between the windows based upon the proportionate estimated fair value of each window which generally results in the majority of the cost being allocated to the first window.

*Impairment.* For titles that are predominantly monetized individually, when estimates of future revenue and costs indicate that a film or television program will result in an ultimate loss, additional amortization is recognized to the extent that capitalized costs exceed estimated fair value. For titles predominantly monetized as a film group, when circumstances indicate that the fair value of the film group may be less than the unamortized cost of the film group, additional amortization expense is recognized to the extent that capitalized costs exceed estimated fair value. Such additional film group amortization will be recognized on a pro-rata basis to each film or television series in the film group based on the relative carrying amounts for each title. The estimated fair value of a film, television program or film group is calculated using Level 3 inputs, as defined in the fair value hierarchy, including long-range projections of revenue, operating and distribution expenses, and a discounted cash flow methodology using discount rates based on a weighted-average cost of capital. During the three month periods ended March 31, 2021 and 2020, no such fair value adjustments were recorded.

Film and television costs and program rights, net of amortization, are summarized as follows (in thousands):

	<b>March 31, 2021</b>
Internally produced film and television programs:	
Individual monetization	
Released	\$ 721,212
Completed not released	366,821
In production	360,877
In development	89,197
Total individually monetized	<u>1,538,107</u>
Film group monetization	
Released	104,100
Completed not released	—
In production	6,890
In development	1,568
Total film group monetization	<u>112,558</u>
Licensed program rights	<u>364,919</u>
Film and television costs and program rights, net	<u><u>\$ 2,015,584</u></u>

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 5—Film and Television Costs and Program Rights (Continued)**

Amortization expense, including development abandonments, for the three month period ended March 31, 2021 totaled \$83.5 million for internally produced titles monetized individually and \$10.7 million for internally produced titles monetized in a film group. Such amounts totaled \$57.0 for licensed program rights for the three month period ended March 31, 2021. Amortization of film and television and program rights for the three month period ended March 31, 2020 totaled \$154.1 million. Amortization is included in operating expense in the unaudited condensed consolidated statements of income.

Estimated future amortization expense for film and television costs and program rights is summarized as follows (in thousands):

	<u>Twelve Months Ended December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
Released			
Individual monetization	\$ 324,771	\$ 157,628	\$ 134,633
Film group monetization	48,174	27,015	11,447
Licensed program rights	\$ 175,561	\$ 79,290	\$ 33,059
	<u>Twelve Months Ended December 31, 2021</u>		
Completed not released			
Individual monetization	\$	150,438	

As of March 31, 2021 and December 31, 2020, unamortized film and television costs accounted for as acquired film and television libraries were \$0.5 billion each. The Company's film and television costs accounted for as acquired film and television libraries are predominantly monetized individually and are being amortized under the individual-film-forecast method in order to properly match the expected future revenue streams. Such acquired film and television libraries have an average remaining life of approximately five years as of March 31, 2021.

**Note 6—Fair Value Measurements**

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), (ii) inputs other than quoted prices for similar assets or liabilities in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at March 31, 2021 (in thousands):

<u>Description</u>	<u>Balance</u>	<u>Fair Value Measurements at March 31, 2021 using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Financial instruments	\$ 1,530	\$ —	\$ 1,530	\$ —
Liabilities:				
Financial instruments	(27,910)	—	(27,910)	—
Total	<u>\$ (26,380)</u>	<u>\$ —</u>	<u>\$ (26,380)</u>	<u>\$ —</u>

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 6—Fair Value Measurements (Continued)**

The following table presents information about the Company’s financial assets and liabilities carried at fair value on a recurring basis at December 31, 2020 (in thousands):

<b>Description</b>	<b>Balance</b>	<b>Fair Value Measurements at December 31, 2020 using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets:				
Financial instruments	\$ 3,211	\$ —	\$ 3,211	\$ —
Liabilities:				
Financial instruments	(31,564)	—	(31,564)	—
<b>Total</b>	<b>\$ (28,353)</b>	<b>\$ —</b>	<b>\$ (28,353)</b>	<b>\$ —</b>

Financial instruments at March 31, 2021 and December 31, 2020 primarily reflect the fair value of outstanding interest rate swaps or similar arrangements with certain counterparties entered into by the Company to reduce its exposure to variable interest rates. The fair value of such interest rate swaps was included in other current liabilities in the unaudited condensed consolidated balance sheets at March 31, 2021 and December 31, 2020. The fair value of these contracts was determined using a market-based approach.

The Company also had certain outstanding foreign currency exchange forward contracts, which were included in other current assets in the unaudited condensed consolidated balance sheets at March 31, 2021 and December 31, 2020. The fair value of these instruments was determined using a market-based approach.

**Note 7—Investments in Affiliates**

Investments in unconsolidated affiliates are summarized as follows (in thousands):

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Non-equity method investments	\$ 40,521	\$ 39,521
Equity method investments:		
United Artists Releasing	20,898	19,431
Audio Up Inc.	1,857	2,201
<b>Investments in affiliates</b>	<b>\$ 63,276</b>	<b>\$ 61,153</b>

*United Artists Releasing.* In October 2017, MGM formed a joint venture with Annapurna Pictures to control and finance the U.S. theatrical marketing and distribution of certain MGM, Annapurna and third party films. Beginning in March 2019, films from MGM, Orion Pictures and Annapurna have been distributed under each partner’s respective banner and the “United Artists Releasing” banner. The Company owns less than 50% of this joint venture and its obligation to absorb potential losses of the joint venture is limited. Therefore, the Company accounts for its share of certain profits and losses of the joint venture under the equity method of accounting.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### Note 7—Investments in Affiliates (Continued)

During the three month period ended March 31, 2021, equity in net earnings (losses) of affiliates in the unaudited condensed consolidated statement of income included \$2.1 million of net losses, respectively, from the Company’s interest in the joint venture, net of intercompany eliminations. During the three month period ended March 31, 2020, equity in net earnings (losses) of affiliates included \$7.8 million of net losses from the Company’s interest in the joint venture, net of intercompany eliminations. Capital contributions to the joint venture including accruals totaled \$3.5 million each during the three month periods ended March 31, 2021 and 2020.

*Audio Up Inc.* In May 2020, MGM Studios acquired less than 20% interest in Audio Up Inc., a podcast content production studio, platform, and network. The Company accounts for its investment in Audio Up under the equity method of accounting due to the Company’s ability to exercise significant influence through its voting rights. During the three months ended March 31, 2021, equity in losses of affiliates included \$0.3 million of net losses from the Company’s interest in Audio Up. There were no capital contributions during each of the three month periods ended March 30, 2021 and 2020.

*Telecine Programacao de Filmes Ltda.* MGM has an equity investment in Telecine Programacao de Filmes Ltda. (“Telecine”), a joint venture with Globo Comunicacao e Participacoes S.A., Paramount, Twentieth Century Fox and NBC Universal, Inc. that operates a pay television network in Brazil. The Company does not consolidate Telecine, but rather accounts for its investment in Telecine under the measurement alternative since there is no readily determinable fair value. Under the measurement alternative, the investment is accounted for at cost less impairment, if any, and adjusted for any observable price changes. As such, the Company’s share of the net income of Telecine is not included in the Company’s unaudited condensed consolidated statements of income. However, the Company recognizes income from its investment in Telecine when it receives dividends.

*Non-Equity Method Investments.* Non-equity method investments generally include investments of 20% or less, over which the Company has no significant influence, that do not have a readily determinable fair value. Such investments are recorded at cost less impairment, if any, and adjusted for any observable price changes. During the three month period ended March 31, 2021, the Company recognized an unrealized gain of \$1.0 million related to its non-equity method investment in Quibi, an over-the-top short-form content streaming platform. During the three month period ended March 31, 2020, the Company recognized a gain of \$13.3 million related to the monetization of its minority interest in Tubi TV. All gains were included in equity in net earnings (losses) of affiliates in the unaudited condensed consolidated statements of income in their respective periods.

No dividend income was received from the Company’s non-equity method investments during the three month periods ended March 31, 2021 and 2020.

#### Note 8—Property and Equipment

Property and equipment are summarized as follows (in thousands):

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Furniture, fixtures and equipment	\$ 92,580	\$ 89,783
Leasehold improvements	21,424	21,418
Finance leases	1,297	1,570
	<b>115,301</b>	112,771
Less accumulated depreciation and non-content amortization	(87,491)	(83,490)
Property and equipment, net	<b>\$ 27,810</b>	\$ 29,281

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 9—Corporate Debt**

Corporate debt is summarized as follows (in thousands):

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Revolving credit facility	\$ 1,235,000	\$ 1,205,000
1L Term Loan, net of discount of \$1,167 and \$1,238, respectively	388,833	389,762
2L Term Loan, net of discount of \$2,628 and \$2,753, respectively	397,372	397,247
Finance lease obligations	1,285	1,571
Deferred financing costs	<u>(6,780)</u>	<u>(7,137)</u>
	<u>\$ 2,015,710</u>	<u>\$ 1,986,443</u>
Less: Current portion	<u>(5,159)</u>	<u>(5,154)</u>
Noncurrent portion	<u>\$ 2,010,551</u>	<u>\$ 1,981,289</u>

*Amended Credit Facility.* In July 2018, the Company entered into a seven-year \$400.0 million first lien term loan (the “1L Term Loan”) and an eight-year \$400.0 million second lien term loan (the “2L Term Loan”). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over London Interbank Offered Rate (“LIBOR”) and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. The face value of both the 1L and 2L Term Loans approximated fair value at March 31, 2021. In addition, the Company amended its prior senior secured revolving credit facility to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base (“Amended Revolving Credit Facility”). The Company’s Amended Revolving Credit Facility currently has \$1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023 (all-in rate was 1.86% at March 31, 2021). Proceeds from the issuance of these term loans and the Amended Revolving Credit Facility were primarily used to prepay the Company’s prior \$850.0 million senior secured term loan. To reduce its exposure on variable interest rates, the Company had \$710.0 million in interest rate swap contracts outstanding at March 31, 2021 that bore interest at a fixed blended rate of 2.29% (see Note 10). Interest expense for such swap contracts totaled \$3.1 million and \$1.1 million for the three month periods ended March 31, 2021 and March 31, 2020, respectively. Such amounts were included in contractual interest expense in the unaudited condensed consolidated statements of income.

The Company incurred \$4.7 million and \$5.5 million in fees and other costs related to the 1L and 2L Term Loans, respectively, which were deferred and presented as a direct deduction from the related debt liabilities in the unaudited condensed consolidated balance sheets. Aggregate deferred financing fees totaled \$5.2 million for the 1L Term Loan. Deferred financing fees and accretion of the debt discounts are being amortized over the terms of the 1L and 2L Term Loans, respectively, using the effective-interest method. During both of the three month periods ended March 31, 2021 and 2020, the Company recorded interest expense for the amortization of the 1L Term Loan and 2L Term Loan deferred financing costs of \$0.2 million each. Interest expense recorded for the accretion of the respective discounts for the 1L Term Loan and 2L Term Loan totaled \$0.1 million each during both of the three month periods ended March 31, 2021 and 2020.

Separately, the Company incurred \$6.9 million in fees and other costs related to the Amended Revolving Credit Facility, which were deferred and included in other assets in the unaudited condensed consolidated balance sheet. Aggregate deferred financing costs of \$20.6 million are being amortized over the term of the Amended Revolving Credit Facility using the straight-line method. During the three month periods ended March 31, 2021 and 2020, the Company recorded interest expense for the amortization of deferred financing costs of \$1.0 million and \$1.1 million, respectively.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### **Note 9—Corporate Debt (Continued)**

The availability of funds under the Amended Revolving Credit Facility is limited by a borrowing base calculation and reduced by outstanding letters of credit, if any. As of March 31, 2021, there was \$1,235.0 million drawn against the Amended Revolving Credit Facility and there were no outstanding letters of credit. Currently, the \$565.0 million of remaining funds under our Amended Revolving Credit Facility are entirely available to the Company. Lenders under the Amended Revolving Credit Facility have a senior security interest in substantially all the assets of MGM, with certain exceptions. At March 31, 2021, the Company was in compliance with all applicable covenants and there were no events of default.

The Company incurs an annual commitment fee equal to 0.375% per annum. Payments are made quarterly based on the average daily amount undrawn during the period. During the three month period ended March 31, 2021, the Company incurred commitment fees of \$0.5 million. Such amounts totaled \$0.6 million for the three month period ended March 31, 2020. Separately, during the three month period ended March 31, 2021, the Company recorded \$5.8 million of interest expense for borrowings under the Amended Revolving Credit Facility. During the three month period ended March 31, 2020, such amounts totaled \$9.5 million. In addition, during the three month period ended March 31, 2021, the Company recorded \$2.6 million and \$5.5 million of interest expense for the 1L Term Loan and 2L Term Loan, respectively. Interest expense for the 1L Term Loan and the 2L Term Loan totaled \$4.2 million and \$6.2 million, respectively, during the three month period ended March 31, 2020. Commitment fees and interest expense are included in contractual interest expense in the unaudited condensed consolidated statements of income.

#### **Note 10—Financial Instruments**

The Company transacts business globally and is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Such contracts generally have maturities between less than one and 17 months. As of March 31, 2021, the Company had several outstanding foreign currency exchange forward contracts relating to anticipated production cash flows that qualified for hedge accounting. Such contracts were carried at fair value and included in other assets in the unaudited condensed consolidated balance sheet for the three months ended March 31, 2021. Separately, the Company may enter into interest rate swaps or similar arrangements with certain counterparties to reduce its exposure to variable interest rates. Such contracts generally have maturities between one and five years. As of March 31, 2021, the Company had two interest rate swap contracts outstanding, which were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed to be effective at March 31, 2021. As such, changes in the fair value of such contracts were included in accumulated other comprehensive loss in the unaudited condensed consolidated balance sheet.

During the three month period ended March 31, 2021, the Company recorded \$1.5 million of net unrealized gains (net of tax), respectively, relating to the change in fair value of such contracts in accumulated other comprehensive loss. At March 31, 2021, \$1.6 million of net unrealized losses included in accumulated other comprehensive loss are expected to be recognized into earnings within the next 12 months when the underlying transaction that is hedged affects earnings. During the three month period ended March 31, 2021, the Company reclassified immaterial amounts, net of tax, out of accumulated other comprehensive loss and into earnings. Such amounts were included in operating expenses with the related tax effect recorded in the income tax provision in the unaudited condensed consolidated statements of income.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### Note 10—Financial Instruments (Continued)

As of March 31, 2020, the Company had several foreign currency exchange forward contracts and interest rate swap contracts outstanding, which were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed effective at March 31, 2020 and as such, changes in the fair value of all other contracts were included in accumulated other comprehensive loss in the unaudited condensed consolidated balance sheet. During the three month period ended March 31, 2020, the Company recorded \$15.8 million of net unrealized losses (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive loss.

#### Note 11—MGM Holdings Inc. Stockholders' Equity

*Common Stock.* The Company is authorized to issue 110,000,000 shares of Class A common stock, \$0.01 par value, and 110,000,000 shares of Class B common stock, \$0.01 par value. As of March 31, 2021 and December 31, 2020, 79,172,601 and 79,162,612 aggregate shares of common stock were issued, respectively, and 43,096,379 and 43,089,901 aggregate shares of common stock were outstanding, all of which were Class A common stock.

*Preferred Stock.* The Company is authorized to issue up to 10,000,000 shares of Preferred Stock, \$0.01 par value. As of March 31, 2021, no shares of Preferred Stock were issued or outstanding.

*Treasury Stock.* During the three months ended March 31, 2021, the Company completed repurchases of 3,511 shares of its Class A common stock at a weighted-average price of \$94.00 per share for a total of \$0.3 million.

During the three months ended March 31, 2020, the Company completed repurchases of 1,736,776 shares of its Class A common stock at a weighted-average price of \$73.07 per share for a total of \$126.9 million, which included 1,700,000 shares that the Company committed to repurchase from Highland at December 31, 2019.

*Stock Incentive Plan.* The Company's stock incentive plan (the "Stock Incentive Plan") allows for the granting of stock awards aggregating not more than 12,988,234 shares outstanding at any time. Awards under the Stock Incentive Plan are generally not restricted to any specific form or structure and may include, without limitation, non-qualified stock options, restricted stock awards and stock appreciation rights (collectively, "Awards"). Awards may be conditioned on continued employment, have various vesting schedules and have accelerated vesting and exercisability provisions in the event of, among other things, a change in control of the Company. All outstanding stock options under the Stock Incentive Plan have been issued at or above market value and generally vest over a period of five years.

Stock option activity under the Stock Incentive Plan was as follows:

	Three Months Ended			
	March 31, 2021		March 30, 2020	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of period	2,736,110	\$ 85.29	2,844,020	\$ 82.91
Granted	-	-	200,000	91.50
Exercised	(9,989)	61.62	(77,492)	54.84
Canceled or expired	(28,011)	70.26	(115,918)	54.84
Options outstanding at end of period	<u>2,698,110</u>	\$ 85.53	<u>2,850,610</u>	\$ 85.42
Options exercisable at end of period	<u>1,864,110</u>	\$ 83.75	<u>1,547,610</u>	\$ 79.38

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### Note 11—MGM Holdings Inc. Stockholders' Equity (Continued)

The fair value of option grants was estimated using the Black-Scholes option pricing model. Total stock-based compensation expense recorded under the Stock Incentive Plan was \$2.5 million and \$3.4 million during the three month periods ended March 31, 2021 and 2020, respectively. As of March 31, 2021, total stock-based compensation expense related to non-vested awards not yet recognized under the Stock Incentive Plan was \$9.8 million, which is expected to be recognized over a weighted-average period 1.06 years.

#### Note 12—Income Taxes

The Company recorded an income tax provision of \$7.2 million and \$7.9 million during the three month periods ended March 31, 2021 and 2020, respectively. At the end of each interim period, the Company computes the year-to-date tax provision by applying the estimated annual effective tax rate to year-to-date pretax book income.

The income tax provision and/or benefit recorded during the three month periods ended March 31, 2021 and 2020 included a provision for federal and state income taxes that reflected standard United States statutory income tax rates, as well as foreign remittance taxes attributable to international distribution revenues. Foreign remittance taxes are creditable against U.S. federal income taxes.

At March 31, 2021, the Company and its subsidiaries had net operating loss carryforwards for United States federal tax purposes of \$0.2 billion, which will be available to reduce future taxable income. The net operating loss carryforwards expire between the years ending December 31, 2029 and December 31, 2038 and are subject to limitation on use under Section 382 of the Internal Revenue Code. In addition, the Company has net operating loss carryforwards for California state tax purposes of \$0.5 billion, which will expire between the years ending December 31, 2031 and December 31, 2040. As a result of the utilization of such net operating loss carryforwards, cash paid for income taxes was significantly lower than the Company's income tax provision.

The following is a summary reconciliation of the federal tax rate to the effective tax rate:

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Federal statutory tax rate on pre-tax book income	<b>21%</b>	21%
State taxes, net of federal income tax benefit	<b>2</b>	2
Changes in uncertain tax positions	<b>1</b>	1
Foreign taxes, net of federal income tax benefit	—	—
Change in valuation allowance	—	—
Other permanent differences	—	(3)
Effective tax rate	<b>24%</b>	21%

*Changes in Uncertain Tax Positions.* The Company accrued interest for the three month periods ended March 31, 2021 and March 31, 2020 on prior year uncertain tax positions.

*Foreign Taxes, Net of Federal Income Tax Benefit.* The Company recognized an income tax benefit for foreign taxes for the three months ended March 31, 2021 and 2020, respectively. This income tax benefit resulted from filing an election for tax years beginning in 2011 to claim foreign tax credits against federal income taxes instead of recognizing a deduction for foreign taxes.

## MGM Holdings Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

#### Note 12—Income Taxes (Continued)

*Change in Valuation Allowance.* Change in valuation allowance for the three month period ended March 31, 2021 in the federal tax rate reconciliation above primarily resulted in the California tax law change suspending the utilization of California net operating losses for the 2020 through 2022 tax years. Such tax law changes resulted in an immaterial increase to the Company’s valuation allowance during the three month period ended March 31, 2021.

*Other Permanent Differences.* Other permanent differences for the three month period ended March 31, 2020 in the federal tax rate reconciliation above primarily include the recording of excess tax benefits from share-based payments.

The Coronavirus Aid, Relief, and Economic Security Act, was signed into law on March 27, 2020, and later augmented by the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, signed into law on December 27, 2020 (collectively, the “CARES Act”). Several provisions of the CARES Act apply to the Company, and the Company anticipates receiving material financial benefits, among other things, enhanced utilization of Federal net operating losses and payroll tax credits and deferrals.

On March 11, 2021, President Biden signed into law the American Rescue Plan Act, a \$1.9 trillion tax-and-spending package aimed at addressing the continuing economic and health impacts of the coronavirus pandemic. The American Rescue Plan Act provision’s do not have a material impact on the Company’s income tax expense and effective tax rate.

#### Note 13—Retirement Plans

Components of net periodic pension cost were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Interest cost on projected benefit obligation	\$ 118	\$ 144
Expected return on plan assets	(102)	(98)
Net actuarial loss	38	23
Net periodic pension expense	\$ 54	\$ 69

Components of net periodic pension cost were included in other income (expense), net in the unaudited condensed consolidated statements of income. No contributions were made to the Plan during the three month periods ended March 31, 2021 and 2020. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2021.

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

**Note 14—Other Comprehensive Income (Loss)**

Components of accumulated other comprehensive income (loss) were as follows (in thousands):

	<b>Unrealized Loss on Derivative Instruments</b>	<b>Retirement Plan Adjustments</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance, January 1, 2021	\$ (28,021)	\$ (1,861)	\$ 44	\$ (29,838)
Current period comprehensive income	<b>4,300</b>	<b>54</b>	<b>1,452</b>	<b>5,806</b>
Income tax effect	<b>(989)</b>	<b>(12)</b>	<b>(334)</b>	<b>(1,335)</b>
Balance, March 31, 2021	<b>\$ (24,710)</b>	<b>\$ (1,819)</b>	<b>\$ 1,162</b>	<b>\$ (25,367)</b>

**Note 15—Commitments and Contingencies**

*Litigation.* Various legal proceedings involving alleged breaches of contract, copyright infringement and other claims are now pending, which the Company considers routine to its business activities. The Company has provided an accrual for pending litigation as of March 31, 2021, for which an outcome is probable and reasonably estimable. Management believes that the outcome of any pending claim or legal proceeding in which the Company is currently involved will not materially affect the Company's unaudited condensed consolidated financial statements.

*Other Commitments.* The Company has various other commitments entered into in the ordinary course of business relating to corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases, contractual marketing and other contractual obligations under co-production arrangements. Following its full acquisition of EPIX, the Company has commitments related to program rights, which represent contractual commitments under programming license agreements related to film and television content that is not available for exhibition until a future date. Where necessary, the Company has provided an accrual for such amounts as of March 31, 2021.

**Note 16—Supplementary Cash Flow Information**

The Company paid interest of \$17.4 million and \$21.7 million during the three month periods ended March 31, 2021 and 2020, respectively.

The Company paid taxes, primarily foreign remittance taxes, of \$3.1 million and \$1.4 million during the three month periods ended March 31, 2021 and 2020, respectively. In addition, the Company received a net federal income tax refund of \$5.5 million during the three months ended March 31, 2020.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto and other information contained elsewhere in this report. This discussion and analysis also contains forward-looking statements regarding the industry outlook and our expectations regarding the performance of our business. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in the section entitled "Forward-Looking Statements and Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

### Sources of Revenue

Our principal sources of revenue include the exploitation of film and television content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms. In addition, we recognize significant affiliate and SVOD distribution revenue from our distribution of EPIX.

#### *Film and Television Content*

Our film content is exploited through a series of domestic and international distribution platforms for periods of time, or windows, during which such exploitation is frequently exclusive against other distribution platforms for negotiated time periods. Historically, a film's release has begun with its theatrical exhibition window, which may run for a period of one to three months. Due the closure of theaters resulting from the COVID-19 pandemic, certain studios have released films using alternative distribution models, including PVID distribution and direct sales to SVOD platforms. Typically, marketing costs are incurred prior to and during a film's initial distribution window in an effort to create public awareness of a film and to help generate consumer interest in the film's subsequent windows. We generally recognize an increase in revenue with respect to a film when it initially enters each of its distribution windows.

In addition, we produce television content for initial broadcast on television networks, cable networks, premium subscription services and digital platforms. Following its initial airing, television content is typically licensed for further television exploitation internationally, and, in some cases, made available for EST and home entertainment distribution worldwide. Successful scripted television series, which typically include individual series with four or more seasons, may be licensed for off-network exhibition in the U.S. (including in syndication and to SVOD services, such as Amazon Prime Video, Hulu and Netflix). We generally recognize an increase in revenue with respect to television content when (and if) it is initially distributed in each of these windows. Revenue for unscripted content may include executive producer and other production services fees, as well as rankings/ratings bonuses, product integration and revenue from tape or format sales. Revenue from executive producer and other production services fees, as well as product integration, are recognized upon delivery, and revenue for rankings/ratings bonuses and our share of tape or format sales is typically recognized when such amounts are estimable.

We generally recognize a substantial portion of the revenue generated by film and television content as a result of its initial passage through the abovementioned windows. We continue to recognize revenue for our content after initial passage through the various windows. During this subsequent time period, we may earn revenue simultaneously from multiple distribution methods.

Our film and television content is distributed worldwide. For the year ended December 31, 2020, we derived approximately 46% of our total consolidated revenue from international sources. Excluding our Media Networks segment, which is substantially comprised of EPIX, we derived approximately 64% of our total film and television content revenue from international sources. Revenue from international sources fluctuates year-to-year and is dependent upon several variables including our release schedule, the timing of international theatrical and home entertainment release dates, the timing of television availabilities, the relative performance of individual feature films and television content and foreign exchange rates.

Other sources of revenue for our film and television content include various ancillary revenue, primarily consisting of the licensing of intellectual property rights for use in interactive games and consumer products, as well

as music revenue from the licensing of publishing, soundtrack, master use and synchronization rights to various compositions featured in our film and television content.

### ***Media Networks***

Our Media Networks segment primarily consists of EPIX, our MGM-branded channel in the U.S., MGM HD, and several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada, plus a recently launched SVOD service in Latin America.

Revenue for EPIX is derived from affiliation agreements with U.S. multichannel video programming distributors (“MVPDs”), virtual MVPDs and OTT distribution through apps and online platforms, as well as fees associated with SVOD distribution arrangements. Affiliate revenue from cable television and satellite operators, telecommunication companies and online video distributors is recognized in the period during which the channel services are provided. Revenue from OTT distribution is recognized based on the number of subscribers reported to us, or if such reporting is provided to us on a lag, based on the most current subscriber information available. Fees associated with SVOD distribution are recognized upon the availability of programming to the distributor.

Other sources of revenue for our Media Networks include subscriber fees for MGM HD and our international SVOD services. Prior to the sale that occurred in October 2020, we also generated revenue from two digital networks, ThisTV and LightTV, which was primarily comprised of advertising sales.

### **Cost Structure**

Within our results of operations our expenses primarily include operating, distribution and marketing, and general and administrative (“G&A”) expenses. During 2020 and 2021, we have incurred incremental expenses as a direct result of the COVID-19 pandemic that impacted the comparative operating performance of our business to prior year results. This included (i) costs to suspend and restart film and television productions, (ii) sunk P&A costs for certain films due to a change in release date or distribution strategy resulting from the closure of theaters, (iii) development abandonment expenses resulting from a change in the likelihood that certain projects will be set for production within the required timeframe, (iv) severance and other costs associated with organizational restructuring activities, and (v) other costs. We consider these expenses to be non-recurring items and have excluded them in our calculation of Adjusted EBITDA, which we consider to be an important measure of comparative operating performance. Refer to *Use of Non-GAAP Financial Measures* below for further discussion.

### ***Operating Expenses***

Operating expenses primarily consist of film and television cost amortization expenses, accruals of talent participations, residuals and co-production profit share obligations (collectively, “P&R”) for film and television content, and programming cost amortization expenses for our Media Networks.

Film and television cost amortization expense includes the amortization of content production and acquisition costs, plus certain fair value adjustments, including step-up amortization expense and purchase accounting adjustments (both of which are defined and discussed below).

Talent participation costs represent contingent compensation that may be payable to producers, directors, writers and principal cast based on the performance of feature film and television content. Residual costs represent compensation that may be payable to various unions or guilds, such as the Directors Guild of America, Screen Actors Guild-American Federation of Television and Radio Artists, and Writers Guild of America, and are typically based on the performance of feature film and television content in certain markets. Co-production profit share expenses represent profit sharing costs that may be payable to our co-production partners and other intellectual property rights holders based on the performance of feature film and television content.

Programming cost amortization expense includes the amortization of production, acquisition and licensing costs for programming on our Media Networks, as well as certain fair value adjustments, including intercompany programming cost amortization expense (which is defined and discussed below).

In addition, we include in operating expenses the cost of duplicating physical prints, creating digital cinema packages, and replicating DVDs and Blu-ray discs, as well as personnel costs that are directly related to the operation of our Media Networks.

*Film and Television Costs.* Film and television costs include the costs of acquiring rights to content, the costs associated with producers, directors, writers and actors, and the costs involved in producing the content, such as studio rental, principal photography, sound and editing. Like film studios, we generally fund our film and television costs with cash flow from operating activities, and/or bank borrowings and other financing methods. From time to time, production overhead and related financing costs may be capitalized as part of film and television production costs.

We amortize film and television costs, including production costs, capitalized interest and overhead, and any related fair value adjustments, and we accrue P&R, using the individual-film-forecast method (“IFF method”). Under the IFF method such costs are charged against earnings, and included in operating expenses, in the ratio that the current period’s gross revenue bears to management’s estimate of total remaining “ultimate” gross revenue as of the beginning of the current period. “Ultimates” represent estimates of revenue and expenses expected to be recognized over a period not to exceed ten years from the initial release or broadcast date, or for a period not to exceed 20 years for acquired film and television libraries. For scripted television content, we combine all seasons of a series for purposes of amortizing the associated capitalized costs and accruing the related P&R.

*Step-up Amortization Expense.* A significant portion of the carrying value of our film and television inventory consists of non-cash fair value adjustments. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various company transactions and events. As such, our film and television inventory carrying value contains (a) unamortized cash investments to produce or acquire content and (b) unamortized non-cash fair value adjustments. We amortize our aggregate film and television inventory costs in accordance with the applicable accounting standards, and our aggregate amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to “step-up” the carrying value of our film and television inventory costs. Unamortized fair value adjustments were approximately \$360 million at March 31, 2021 and are expected to be amortized using the IFF method over an average amortization period of 4.8 years. We refer to the amortization of these fair value adjustments as “Step-up Amortization Expense” and disclose it separately to help the users of our financial statements better understand the components of our operating expenses.

*Purchase Accounting Adjustments.* The accounting for business combinations required us to record fair value accounting adjustments to initially state the content assets of UAMG, LLC (“United Artists Media Group” or “UAMG”), Evolution and Big Fish at fair value as of January 2016, July 2017 and June 2018, respectively. As a result, the carrying value of our film and television inventory include fair value adjustments to the content assets of UAMG, Evolution and Big Fish that result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. We separately record this non-operational amortization expense and include it within “Purchase Accounting Adjustments,” which is added back in our calculation of Adjusted EBITDA to help the users of our financial statements better understand the fundamental operating performance of the Company. A substantial portion of the Purchase Accounting Adjustments for UAMG and Evolution had been expensed as of December 31, 2018, and amounts for years thereafter are primarily related to fair value accounting adjustments for Big Fish, which were substantially amortized as of December 31, 2020.

*Intercompany Programming Cost Amortization.* Prior to MGM’s acquisition of EPIX in May 2017, MGM recorded film cost amortization expense related to its revenue from licensing content to EPIX. Due to the accounting requirements for business combinations, on May 11, 2017 we recorded intercompany programming assets on the balance sheet of EPIX related to these same licensed rights even though these represent intercompany assets for which amortization expense was already recorded through the pre-acquisition income statement of MGM. As a result, our operating results for periods occurring subsequent to the acquisition include higher programming cost amortization expense related to these intercompany programming assets, which would not otherwise be recorded if such licenses occurred subsequent to the acquisition and consolidation of EPIX. We separately record this programming cost amortization expense and include it within “Intercompany Programming Cost Amortization,” which is added back in our calculation of Adjusted EBITDA to help the users of our financial statements better understand the consolidated operating performance of the Company excluding the impact of intercompany expenses.

### ***Distribution and Marketing Expenses***

Distribution and marketing expenses generally consist of (i) advertising costs associated with the initial distribution of film content, (ii) marketing costs for other distribution windows for film and television content, (iii) advertising costs for our Media Networks segment, (iv) third party distribution services fees for various distribution activities (where applicable), (v) distribution expenses such as delivery costs, and (vi) other exploitation costs.

Advertising costs associated with the initial distribution of film content are typically significant and involve large scale media campaigns, the cost of developing and producing marketing materials, as well as various publicity activities to promote the film. These costs are largely incurred and expensed prior to and during the initial release of a feature film. As a result, we could recognize a significant amount of expenses with respect to a particular film before we recognize most of the revenue to be produced by that film. For films distributed by our U.S. theatrical distribution joint venture, theatrical distribution and marketing expenses will be included in the net income (loss) of the joint venture, and we will account for our share of such expenses (and related revenues) using the equity method of accounting.

Marketing expenses for our Media Networks substantially consist of advertising costs for original content on EPIX and marketing spend to promote the EPIX service. Marketing expenses may fluctuate from period to period based on the timing and number of original content premiering on EPIX, as well as the timing of marketing campaigns to promote EPIX and drive additional awareness. Marketing expenses are typically higher during periods in which original content initially premieres or EPIX launches on new platforms. For marketing costs that are contractually required to be spent on a customer's service or platform and primarily target that customer's subscribers, we record such costs as contra-revenue against the revenue from the respective customer.

In addition, we typically incur fees for distribution services provided by our co-production and distribution partners, which are expensed as incurred and included in distribution and marketing expenses. These fees are generally variable costs that fluctuate depending on the amount of revenue generated by our film and television content and are primarily incurred during the exploitation of our content in the theatrical and home entertainment windows.

Distribution and marketing expenses also include marketing and other promotional costs associated with home entertainment and television distribution, allowances for doubtful accounts receivable, and realized foreign exchange gains and losses. In addition, we consider delivery costs such as shipping prints and physical home entertainment units to be distribution expenses and categorize such costs within distribution and marketing expenses.

### ***General and Administrative Expenses***

G&A expenses primarily include salaries and other employee-related expenses (including non-cash stock-based compensation expense), facility costs including rent and utilities, professional fees, consulting and temporary help, insurance premiums and travel expenses.

### **Foreign Currency Transactions**

We earn certain revenue and incur certain operating, distribution and marketing, and G&A expenses in currencies other than the U.S. dollar, principally the Euro and the British Pound. As a result, fluctuations in foreign currency exchange rates can adversely affect our business, results of operations and cash flows. In certain instances, we enter into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. While we intend to continue to enter into such contracts in order to mitigate our exposure to certain foreign currency exchange rate risks, it is difficult to predict the impact that these hedging activities will have on our results of operations.

**Library**

We classify film and television content as library content at the beginning of the quarter of a title's second anniversary following its initial theatrical release or broadcast date. Library content is primarily exploited through television licensing, including pay and free television, SVOD, TVOD and AVOD windows, as well as home entertainment, including both physical distribution and EST. Our definition of library excludes revenue generated by our Media Networks and ancillary businesses, such as our interactive gaming, consumer products and music performance revenue, even though the majority of our ancillary revenue is generated from the licensing or other exploitation of library content and the underlying intellectual property rights.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires us to make estimates, judgments and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and the related disclosures of contingent liabilities in our financial statements and accompanying notes. The following critical accounting policies and estimates, which are important to the portrayal of our financial condition and results of operations, require us to make subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. For a summary of our significant accounting policies, refer to Note 1 in our audited consolidated financial statements as of December 31, 2020. To the extent there are material differences between our estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions and judgments that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

### Revenue Recognition

#### *Film and Television Content*

We recognize revenue in each market once all applicable recognition requirements are met. Revenue for film and television content is primarily comprised of the following distribution markets.

*Theatrical:* Revenue from theatrical distribution of film content is recognized on the dates of exhibition and typically represents a percentage of theatrical box office receipts collected by the exhibitors.

*Television licensing:* Revenue from television licensing is typically recognized when the film or television content is initially available to the licensee for telecast. Revenue from TVOD and PVOD distribution is recognized in the period in which the sales transaction occurs. For PVOD distribution, studios generally retain a higher percentage of gross sales (approximately 80%) than they retain of gross box office sales (approximately 50% in the U.S.). Payments received in advance of initial availability are classified as deferred revenue until all revenue recognition requirements have been met. For scripted and unscripted television content, we typically recognize television licensing revenue ratably upon delivery of each episode to the licensee, even though the licensee may elect to delay the initial airing of each episode until a future date during the license period. Television licensing revenue for unscripted content may also include executive producer and other production services fees, as well as rankings/ratings bonuses, product integration revenue and revenue from tape or format sales. Revenue from executive producer and other production services fees, as well as product integration, are recognized upon delivery, and revenue for rankings/ratings bonuses and our share of tape or format sales is typically recognized when such amounts are estimable.

*Home entertainment:* Revenue from physical home entertainment distribution is recognized, net of reserves for estimated returns and doubtful accounts receivable, and together with related costs, in the period in which the product is shipped and is available for sale to the public. Revenue from transactional electronic sell-through distribution is recognized in the period in which the sales transaction occurs or is reported to us.

*Ancillary:* Ancillary revenue primarily includes the licensing of film and television content and other intellectual property rights for use in interactive games and consumer products, as well as music revenue from the licensing of publishing, soundtrack, master use and synchronization rights to various compositions featured in our film and television content. Revenue from the licensing of intellectual property rights for use in interactive games and consumer products is typically recognized ratably over the license period to the extent that the license grants the licensee use of the underlying intellectual property during the term. Separately, we account for the licensing of the interactive gaming, consumer products and music rights to our film and television content, as well as any profit sharing amounts, at the beginning of the license period or when such amounts become due and are reported to us by our licensees.

*Other revenue:* Other revenue primarily includes net revenue for our share of the distribution proceeds earned by our co-production partners for co-produced film and television content for which our partners control the distribution rights in various distribution windows, including theatrical, home entertainment, television licensing and

ancillary businesses. Net revenue from co-produced film and television content is impacted by the timing of when a title's cumulative aggregate revenue exceeds its cumulative aggregate distribution fees and expenses.

Accounting for revenue and expenses from co-produced feature films and television content in accordance with GAAP and the applicable accounting guidance is complex and requires significant judgment based on an evaluation of the specific terms and conditions of each agreement. Co-production agreements usually stipulate which of the partners will be responsible for exploiting the content in specified distribution windows and/or territories. For example, one partner might distribute a feature film in the theatrical and home entertainment windows, while the other partner might be responsible for distribution in television windows and over various digital platforms. Generally, for each distribution window, the partner controlling the distribution rights will record revenue and distribution expenses on a gross basis, while the other party will record its share of that window on a net basis. In such instances, the company recording revenue on a net basis will typically recognize net revenue in the first period in which an individual film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses across all markets and territories controlled by its co-production partner, which may be several quarters after the film's initial release.

The accounting for our profit share from the distribution rights controlled by our co-production partner and our co-production partner's profit share from our distribution rights may differ from title to title. Typically, we classify our projected co-production partner's ultimate profit share from our distribution rights as P&R expense included within operating expenses and record it over the life of the film or television content using the IFF method. Separately, we account for our profit share from the distribution rights controlled by our co-production partner on a net basis in one of two ways: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it in each period in which an individual film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses across all markets and territories controlled by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, we either (a) classify this amount as a distribution expense included within distribution and marketing expenses and recognize it as incurred to the extent that there is a contractual true-up requirement, or (b) include this amount in our projected co-production partner's ultimate profit share from our distribution rights and record it as P&R expense over the life of the film or television content using the IFF method.

Our determination of the accounting for our co-production and distribution arrangements has a significant impact on the reported amount of our assets and liabilities, revenue and expenses, and the related disclosures.

### ***Media Networks***

Revenue for Media Networks is primarily comprised of the following:

***EPIX:*** Revenue for EPIX is derived from affiliation agreements with U.S. MVPDs, virtual MVPDs and OTT distribution through apps and online platforms, as well as fees associated with SVOD distribution arrangements. Affiliate revenue from cable television and satellite operators, telecommunication companies and online video distributors is recognized in the period during which the channel services are provided. Revenue from OTT distribution is recognized based on the number of subscribers reported to us. Fees associated with SVOD distribution are recognized upon the availability of programming to the distributor. To the extent that we maintain an on-going performance commitment over a contractual term, revenue may be recognized as such obligations are satisfied, or deferred until such obligations are satisfied or the term has concluded.

***Other channels:*** We generate revenue from our MGM-branded channel in the U.S., MGM HD, which is primarily comprised of cable subscriber fees that are recorded as revenue in the period during which the channel services are provided. In addition, we operate several leading international SVOD services in Germany, France, the United Kingdom, Mexico, Canada and Latin America, for which revenue is primarily comprised of subscriber fees. Prior to the sale that occurred in October 2020, we also generated revenue from two digital networks, ThisTV and LightTV, which was primarily comprised of advertising sales.

## **Intercompany Eliminations**

In the ordinary course of business, our business segments enter into various types of transactions with one another, including, but not limited to, the licensing of content from our Film Content segment and/or our Television Content segment to our Media Networks segment. All intercompany transactions are eliminated in consolidation.

For financial reporting purposes, intercompany licensing revenue, intercompany programming cost amortization expense and the corresponding assets and liabilities recognized by the segments that are counterparties to these transactions, are eliminated in consolidation. As such, licensing revenue that was previously recognized by MGM on the availability date of the content licensed to EPIX is no longer recognized in our consolidated statements of income beginning May 11, 2017. In addition, the corresponding programming cost amortization expense that was previously recognized by EPIX over the license term for content licensed from MGM is no longer recognized in our consolidated statements of income beginning May 11, 2017. Amortization expense related to content licensed by MGM to EPIX prior to May 11, 2017 will be included in our consolidated statements of income but added back in our calculation of Adjusted EBITDA (refer to *Intercompany Programming Cost Amortization* above for further discussion).

## **Amortization of Film and Television Costs**

We amortize film and television inventory costs, including production costs, capitalized interest and overhead (if any), and fair value and purchase accounting adjustments, and we accrue P&R, using the IFF method, as described above under *Cost Structure – Operating Expenses*. However, the carrying cost of any individual feature film or television content, or film or television content library, for which an ultimate loss is projected is immediately written down (through increased amortization expense) to its estimated fair value.

We regularly review, and revise when necessary, our ultimates for our film and television content, which may result in a prospective increase or decrease in the rate of amortization and/or a write-down to the carrying cost of the feature film or television content to its estimated fair value. As noted above, ultimates represent estimates of revenue and expenses expected to be recognized over a period not to exceed ten years from the initial release or broadcast date, or for a period not to exceed 20 years for acquired film and television libraries. We determine the estimated fair value of our film and television content based on estimated future cash flows using the discounted cash flow method of the income approach. Any revisions to ultimates can result in significant quarter-to-quarter and year-to-year fluctuations in film and television cost amortization expense. Ultimates by their nature contain inherent uncertainties since they are comprised of estimates over long periods of time, and, to a certain extent, will likely differ from actual results.

The commercial potential of feature film or television content varies dramatically and is not directly correlated with the cost to produce or acquire the content. Therefore, it can be difficult to predict or project a trend of our income or loss. However, the likelihood that we will report losses for the quarter or year in which we release a feature film is increased by the industry's accounting standards that require theatrical advertising and other releasing costs to be expensed in the period in which they are incurred while revenue for the feature film is recognized over a much longer period of time. We may report such losses even for periods in which we release films that will ultimately be profitable for us.

## **Amortization of Programming Costs**

Programming costs for content licensed, produced or acquired by our Media Networks are generally amortized on a title-by-title or episode-by-episode basis over the estimated future utilization, which is based on the number of anticipated exhibitions. In certain circumstances our Media Networks may control multiple distribution rights or control rights to more than one distribution window. For content with multiple distribution rights, we allocate the programming costs based on the estimated fair value of each distribution right. For content with multiple distribution windows, we allocate the programming costs based on the estimated fair value of each distribution window, which will generally result in the majority of the cost being allocated to the first window. Certain other programming costs may be amortized on a straight-line basis over the respective contractual license period.

Programming costs for original film and television content produced by MGM are allocated between pay television (EPIX) and other distribution markets, such as digital distribution, home entertainment and international television licensing, based on the estimated relative fair value. Programming costs allocated to the pay television market are amortized over the estimated future utilization of each title based on the anticipated number of exhibitions on EPIX, while programming costs associated with other distribution markets are amortized using an ultimate model. Programming costs for original film and television content produced by MGM are included in film and television costs in our consolidated balance sheets and related footnotes.

Estimates regarding the utilization of content for our Media Networks and the allocation of programming costs between pay television and other distribution markets will require us to make judgments that involve uncertainty. Any revisions to our estimates or ultimate revenue could result in significant quarter-to-quarter and year-to-year fluctuations in programming cost amortization expense, and may lead to the write down (through increased amortization expense) of programming costs to their estimated fair value.

### **Distribution and Marketing Costs**

Exploitation costs, including advertising and marketing costs, third party distribution services fees for various distribution activities (where applicable), distribution expenses and other releasing costs, are expensed as incurred. As such, our results of operations, particularly for the quarter or year in which we release a feature film or original content on EPIX, may be negatively impacted by the incurrence of the related advertising costs, which are typically significant amounts. As discussed above under *Revenue Recognition*, in some instances, we account for theatrical advertising and other distribution costs on a net basis and may not expense any portion of such costs. In addition, from time to time, our co-production partners and distributors may advance our share of theatrical advertising and other distribution costs on our behalf and require that distribution proceeds first go to the co-production partner or distributor until such advanced amounts have been recouped, and we repay advanced amounts at a later date to the extent not recouped. In the event that such advanced amounts are not recouped from distribution proceeds, we typically remain contractually liable to our co-production partners and may repay such amounts using cash on hand, cash flow from the exploitation of our other film and television content, and, if necessary, funds available under our revolving credit facility.

As discussed above under *Revenue Recognition*, when we account for our profit share from the distribution rights controlled by our co-production partner on a net basis: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it as such amounts become due and are reported to us by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, and there is a contractual true-up requirement, we classify this amount as a distribution expense included within distribution and marketing expenses and record the corresponding liability in accounts payable and accrued liabilities in our consolidated balance sheets when incurred and reported to us by our co-production partner. Instead of a contractual true-up requirement, our co-production partner may participate in additional distribution proceeds from the title, in which case we will include this amount in our projected co-production partner's ultimate profit share from our distribution rights and record it as P&R expense over the life of the film or television content using the IFF method.

### **Income Taxes**

We are subject to international and U.S. federal, state and local tax laws and regulations that affect our business, which are extremely complex and require us to exercise significant judgment in our interpretation and application of these laws and regulations. Accordingly, the tax positions we take are subject to change and may be challenged by tax authorities. Our interpretation and application of applicable tax laws and regulations has a significant impact on the reported amount of our deferred tax assets, including our federal and state net operating loss carryforwards, and the related valuation allowances, as applicable, as well as the reported amounts of our deferred tax liabilities and provision for income taxes. Our recognition of the tax benefits of taxable temporary differences and net operating loss carryforwards is subject to many factors, including the existence of sufficient taxable income in future years, and whether we believe it is more likely than not that the tax positions we have taken will be upheld if challenged by tax authorities. Changes to our interpretation and application of applicable tax laws and regulations could have a significant impact on our financial condition and results of operations.

The Coronavirus Aid, Relief, and Economic Security Act, was signed into law on March 27, 2020, and later augmented by the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, signed into law on December 27, 2020 (collectively, the “CARES Act”). Several provisions of the CARES Act apply to the Company and we anticipate receiving material financial benefits in excess of \$20.0 million, including, among other things, enhanced utilization of Federal net operating losses and payroll tax credits and deferrals.

### *Use of Non-GAAP Financial Measures*

We utilize adjusted earnings before interest, taxes, depreciation and non-content amortization (“Adjusted EBITDA”) to evaluate the operating performance of our business.

Adjusted EBITDA reflects net income attributable to MGM Holdings Inc. (inclusive of equity in net earnings of affiliates) before interest expense, interest and other income (expense), income tax provision, depreciation of fixed assets, amortization of non-content intangible assets and non-recurring gains and losses, and excludes the impact of the following items: (i) Step-up Amortization Expense (refer to *Cost Structure –Operating Expenses* above for further discussion), (ii) Purchase Accounting Adjustments (refer to *Cost Structure –Operating Expenses* above for further discussion), (iii) Intercompany Programming Cost Amortization (refer to *Cost Structure –Operating Expenses* above for further discussion), (iv) stock-based compensation expense, (v) non-recurring costs and other expenses related to mergers, acquisitions, capital market transactions, restructurings and certain unusual and non-operational items, including costs related to the COVID-19 pandemic, to the extent that such amounts are expensed, and (vi) impairment of goodwill and other non-content intangible assets, if any.

We consider Adjusted EBITDA to be an important measure of comparative operating performance because it excludes the impact of certain non-cash and non-recurring items that do not reflect the fundamental performance of our business and allows investors, equity analysts and others to evaluate the impact of these items separately from the fundamental operations of the business.

Adjusted EBITDA is a non-GAAP financial measure and should be considered in addition to, but not as a substitute for, operating income, net income, earnings per share and other measures of financial performance prepared in accordance with GAAP. Among other limitations, Adjusted EBITDA does not reflect certain expenses that affect the operating results of our business, as reported in accordance with GAAP, and involves judgment as to whether the excluded items affect the fundamental operating performance of our business. In addition, our calculation of Adjusted EBITDA may be different from the calculations used by other companies and, therefore, comparability may be limited.

## Results of Operations

The discussion and analysis of our results of operations set forth below are based on our consolidated financial statements and are presented in thousands, unless otherwise stated. This information should be read in conjunction with our consolidated financial statements and the related notes thereto contained in this report.

### Overview of Financial Results

	Three Months Ended		Change	
	March 31,		Amount	Percent
	2021	2020		
Revenue:				
Film content.....	\$ 123,947	\$ 138,306	\$ (14,359)	(10%)
Television content.....	110,387	158,077	(47,690)	(30%)
Media Networks.....	114,295	106,978	7,317	7%
Total revenue.....	348,629	403,361	(54,732)	(14%)
Contribution:				
Film content.....	50,982	31,501	19,481	62%
Television content.....	38,336	91,730	(53,394)	(58%)
Media Networks.....	40,796	8,976	31,820	355%
Total contribution.....	130,114	132,207	(2,093)	(2%)
General and administrative.....	68,010	66,654	1,356	2%
Depreciation and non-content amortization.....	10,491	12,387	(1,896)	(15%)
Operating income.....	51,613	53,166	(1,553)	(3%)
Equity in net earnings (losses) of affiliates.....	(1,426)	6,160	(7,586)	(123%)
Interest expense.....	(19,336)	(23,410)	4,074	17%
Interest and other income (expense), net.....	(226)	1,243	(1,469)	(118%)
Income before income taxes.....	30,625	37,159	(6,534)	(18%)
Income tax provision.....	(7,218)	(7,903)	685	9%
Net income.....	23,407	29,256	(5,849)	(20%)
Less: Net income (loss) attributable to noncontrolling interests..	80	(566)	646	114%
Net income attributable to MGM Holdings Inc.....	\$ 23,327	\$ 29,822	\$ (6,495)	(22%)

### Adjusted EBITDA

	Three Months Ended		Change	
	March 31,		Amount	Percent
	2021	2020		
Net income attributable to MGM Holdings Inc.....	\$ 23,327	\$ 29,822	\$ (6,495)	(22%)
Interest expense.....	19,336	23,410	(4,074)	(17%)
Interest income.....	(661)	(1,225)	564	46%
Other (income) expense, net.....	887	(18)	905	5,028%
Income tax provision.....	7,218	7,903	(685)	(9%)
Depreciation and non-content amortization.....	10,491	12,387	(1,896)	(15%)
EBITDA.....	60,598	72,279	(11,681)	(16%)
Step-up Amortization Expense (1).....	17,186	14,456	2,730	19%
Purchase Accounting Adjustments (2).....	-	4,361	(4,361)	(100%)
Intercompany Programming Cost Amortization (3).....	8	218	(210)	(96%)
Stock-based compensation expense.....	2,537	3,371	(834)	(25%)
Non-recurring costs and expenses (4).....	3,142	3,403	(261)	(8%)
Adjusted EBITDA.....	\$ 83,471	\$ 98,088	\$ (14,617)	(15%)

(1) Step-up Amortization Expense represents incremental amortization expense resulting from non-cash fair value adjustments to the carrying value of our film and television inventory. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various Company transactions and events. Our amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to "step-up" the carrying value of our film and television inventory costs. Refer to *Cost Structure – Operating Expenses* for additional information.

(2) Purchase Accounting Adjustments represent incremental amortization expense resulting from fair value accounting adjustments to the carrying value of the film and television inventory of United Artists Media Group, Evolution and Big Fish. These adjustments result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. Refer to *Cost Structure – Operating Expenses* for additional information.

(3) Intercompany Programming Cost Amortization represents programming cost amortization expense related to content that MGM licensed to EPIX prior to its acquisition and consolidation of EPIX in May 2017. Prior to the acquisition, MGM recorded film cost amortization expense related to its revenue from licensing content to EPIX. Due to the accounting requirements for business combinations, on May 11, 2017 we recorded intercompany programming assets on the balance sheet of EPIX related to these same licensed rights even though these represent intercompany assets for which amortization expense was already recorded through the income statement of MGM. As a result, these intercompany programming assets cause higher programming cost amortization expense than we would otherwise record if such licenses occurred subsequent to the acquisition.

(4) Non-recurring costs and expenses for the three months ended March 31, 2021 primarily consisted of severance and other restructuring costs, expenses associated with the prior year sale of two digital networks, and professional fees. Non-recurring costs and expenses for the three months ended March 31, 2020 primarily consisted of restructuring and transition related expenses associated with the outsourcing of EPIX's digital operations, plus severance and other costs associated with organizational restructuring activities.

***Adjusted EBITDA versus the Three Months Ended March 31, 2020***

For the three months ended March 31, 2021, Adjusted EBITDA of \$83.5 million decreased \$14.6 million as compared to \$98.1 million for the three months ended March 31, 2020. This decrease was entirely due to the significant worldwide SVOD license of the *Vikings* franchise in the prior year's first quarter. Excluding this significant deal, Adjusted EBITDA from all business segments improved over the prior year's first quarter. Adjusted EBITDA (pre-G&A) from film content increased \$20.4 million primarily due to strong library performance and the delivery of our new faith based film, *Resurrection*, to Discovery +. In addition, EPIX Adjusted EBITDA (pre-G&A) improved by \$30.9 million due to higher digital distribution revenue, increased subscribers from our over-the-top distribution of EPIX through affiliate and our EPIX Now platforms, as well as lower operating and marketing costs. Adjusted EBITDA (pre-G&A) from our Television Content segment benefited from our delivery of new episodes of several scripted series in the current year's first quarter including the initial episodes of *The Handmaid's Tale* (season 4) to Hulu, *Clarice* (season 1) to CBS and *Luis Miguel* (season 2) to Netflix, as well as our ongoing licensing of our *Vikings* franchise and the delivery of several unscripted shows. This was partially offset by a modest increase in overhead to support our growth initiatives and lower equity income since the prior year's first quarter included proceeds from the monetization of our investment in Tubi TV.

## Three Months Ended March 31, 2021 Compared to the Three Months Ended March 31, 2020

### Film Content

	Three Months Ended		Change	
	2021	2020	Amount	Percent
Revenue:				
Theatrical.....	\$ 25	\$ 1,910	\$ (1,885)	(99%)
Television licensing.....	94,118	101,709	(7,591)	(7%)
Home entertainment.....	19,818	20,281	(463)	(2%)
Other revenue.....	4,247	9,308	(5,061)	(54%)
Ancillary.....	5,739	5,098	641	13%
Total revenue.....	123,947	138,306	(14,359)	(10%)
Expenses:				
Operating (5).....	64,049	88,260	(24,211)	(27%)
Distribution and marketing.....	8,916	18,545	(9,629)	(52%)
Total expenses.....	72,965	106,805	(33,840)	(32%)
Contribution.....	\$ 50,982	\$ 31,501	\$ 19,481	62%
Step-up Amortization Expense (5).....	13,159	12,310	849	7%
Non-recurring costs and expenses (6).....	100	-	100	NA
<b>Adjusted EBITDA (pre-G&amp;A).....</b>	<b>\$ 64,241</b>	<b>\$ 43,811</b>	<b>\$ 20,430</b>	<b>47%</b>

(5) Operating expenses for film content for the three month periods ended March 31, 2021 and 2020 included \$13.2 million and \$12.3 million, respectively, of Step-up Amortization Expense. Refer to *Cost Structure – Operating Expenses* for additional information.

(6) Non-recurring costs and expenses for the three months ended March 31, 2021 were minimal and primarily consisted of incremental expenses incurred as a direct result of the COVID-19 pandemic. Later in 2021, non-recurring expenses are expected to include sunk P&A costs for *No Time To Die* that will be incurred again in the future due to the delayed theatrical release date resulting from the global closure of theaters.

### Film Content – Revenue

**Theatrical.** Worldwide theatrical revenue for film content was minimal for the three months ended March 31, 2021 due to the continued closure of many theaters worldwide as a result of the COVID-19 pandemic. Currently, we have scheduled the majority of our 2021 film slate for release in the second half of the year, and we will continue to assess the health of the global theatrical marketplace leading up to each film’s anticipated release date. In comparison, worldwide theatrical revenue was \$1.9 million for the three months ended March 31, 2020 and primarily included international revenue from Orion Pictures’ film, *Gretel & Hansel*, in certain territories.

**Television Licensing.** Worldwide television licensing revenue for film content was \$94.1 million for the three months ended March 31, 2021, a decrease of \$7.6 million as compared to \$101.7 million for the three months ended March 31, 2020. Television licensing revenue for the current year’s first quarter primarily included the delivery of our new faith based film, *Resurrection*, to Discovery +, the initial international free television availabilities of *Creed II* and *G.I. Joe: Retaliation*, and ongoing worldwide distribution of other recently released films and our vast library of film content. In comparison, television licensing revenue for the prior year’s first quarter primarily included international revenue for *The Hustle* and *Tomb Raider*, the initial domestic free television availability of *Hercules*, worldwide VOD revenue for *The Addams Family*, and strong library revenue performance.

**Home Entertainment.** Worldwide home entertainment revenue for film content was \$19.8 million for the three months ended March 31, 2021, a decrease of \$0.5 million as compared to \$20.3 million for the three months ended March 31, 2020. Home entertainment revenue for the current year’s first quarter primarily included strong revenue generation from our vast catalog of library film content. In comparison, home entertainment revenue for the prior year’s first quarter primarily included strong worldwide EST revenue for *The Addams Family* and the *James Bond* library, plus our continued distribution of library film content.

**Other Revenue.** Other revenue for film content was \$4.2 million for the three months ended March 31, 2021, a decrease of \$5.1 million as compared to \$9.3 million for the three months ended March 31, 2020. Net revenue from co-produced films in the current year’s first quarter was primarily comprised of ongoing net revenue from several titles. In comparison, net revenue from co-produced films in the prior year’s first quarter was primarily comprised of the initial net revenue from *The Addams Family* and ongoing net revenue from *The Hustle*.

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was \$5.7 million for the three months ended March 31, 2021, an increase of \$0.6 million as compared to \$5.1 million for the three months ended March 31, 2020. The increase primarily reflected higher music publishing revenue in the current year's first quarter.

#### **Film Content – Expenses**

Operating Expenses. Operating expenses for film content were \$64.0 million for the three months ended March 31, 2021, a decrease of \$24.3 million as compared to \$88.3 million for the three months ended March 31, 2020. The decrease in operating expenses reflected \$24.2 million of lower aggregate film cost and P&R amortization expenses. For the current year's first quarter, aggregate amortization expenses primarily included *Creed II*, *G.I. Joe: Retaliation* and library content. In comparison, aggregate amortization expenses for the prior year's first quarter primarily included *The Addams Family*, *The Hustle*, the *James Bond* library and *Gretel & Hansel*, plus library content.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were \$8.9 million for the three months ended March 31, 2021, a decrease of \$9.6 million as compared to \$18.5 million for the three months ended March 31, 2020. The decline in distribution and marketing expenses was primarily driven by fluctuations in foreign currency exchange rates, mainly the British Pound and Euro, which caused \$3.1 million of foreign currency losses in the current year's first quarter versus \$9.1 million of foreign currency losses in the prior year's first quarter. The decrease also reflected lower bad debt expenses and lower theatrical marketing expenses in the current year's first quarter. Marketing expenses associated with theatrical films released through our U.S. theatrical distribution joint venture, United Artists Releasing, are accounted for on an equity method basis through our equity in the net earnings (losses) of affiliates.

## Television Content

	Three Months Ended		Change	
	March 31,		Amount	Percent
	2021	2020		
Revenue:				
Television licensing.....	\$ 105,727	\$ 149,895	\$ (44,168)	(29%)
Home entertainment and other.....	4,660	8,182	(3,522)	(43%)
Total revenue.....	110,387	158,077	(47,690)	(30%)
Expenses:				
Operating (7).....	70,422	63,482	6,940	11%
Distribution and marketing.....	1,629	2,865	(1,236)	(43%)
Total expenses.....	72,051	66,347	5,704	9%
Contribution.....	\$ 38,336	\$ 91,730	\$ (53,394)	(58%)
Purchase Accounting Adjustments (7).....	-	4,361	(4,361)	(100%)
Step-up Amortization Expense (7).....	4,027	2,146	1,881	88%
Non-recurring costs and expenses (8).....	4	-	4	NA
Net (income) loss attributable to noncontrolling interests.....	(409)	290	(699)	(241%)
<b>Adjusted EBITDA (pre-G&amp;A).....</b>	<b>\$ 41,958</b>	<b>\$ 98,527</b>	<b>\$ (56,569)</b>	<b>(57%)</b>

(7) Operating expenses for television content for the three months ended March 31, 2021 included \$4.0 million of Step-up Amortization Expense. Operating expenses for television content for the three months ended March 31, 2020 included \$4.4 million of Purchase Accounting Adjustments and \$2.1 million of Step-up Amortization Expense. Refer to *Cost Structure – Operating Expenses* for additional information.

(8) Non-recurring costs and expenses for the three months ended March 31, 2021 were minimal and primarily consisted of incremental expenses incurred as a direct result of the COVID-19 pandemic.

### Television Content – Revenue

**Television Licensing.** Television licensing revenue for television content was \$105.7 million for the three months ended March 31, 2021, a decrease of \$44.2 million as compared to \$149.9 million for the three months ended March 31, 2020. This decrease was entirely due to the significant revenue from our worldwide SVOD license of the *Vikings* franchise in the prior year's first quarter. Excluding this significant deal, revenue for television content increased in the current year's first quarter despite the ongoing effects of the business disruption caused by the COVID-19 global pandemic, including the delayed delivery of new content due to the temporary suspension of production activities in 2020. We successfully restarted production activities while complying with strict safety protocols and delivered new episodes of several scripted series in the current year's first quarter including the initial episodes of *The Handmaid's Tale* (season 4) to Hulu, *Clarice* (season 1) to CBS and *Luis Miguel* (season 2) to Netflix, as well as ongoing licensing of our *Vikings* franchise. In addition, we delivered new episodes of *The Voice* (season 20), *Live Rescue* (season 3), *Shark Tank* (season 12) and several more unscripted shows. In comparison, revenue for the prior year's first quarter primarily included the aforementioned SVOD revenue for the *Vikings* franchise and the delivery of a higher volume of unscripted shows, including *Live PD*, *Survivor* (season 40), *Live Rescue* (season 2), *The Voice* (season 18), *Botched* (season 6), *Shark Tank* (season 11), and several more shows.

**Home Entertainment and Other.** Home entertainment and other revenue for television content was \$4.7 million for the three months ended March 31, 2021, a decrease of \$3.5 million as compared to \$8.2 million for the three months ended March 31, 2020. The prior year's first quarter benefited from the recent release of *The Handmaid's Tale* (season 3) and *Vikings* (season 6). Due to production delays related to the COVID-19 pandemic, we had no similar new series in their home entertainment distribution window during the current year's first quarter.

### Television Content – Expenses

**Operating Expenses.** Operating expenses for television content were \$70.4 million for the three months ended March 31, 2021, an increase of \$6.9 million as compared to \$63.5 million for the three months ended March 31, 2020. The increase in operating expenses was driven by higher television cost and P&R amortization expenses associated with a greater composition of scripted content in the current year's first quarter, including *The Handmaid's Tale* (season 4), *Clarice* (season 1) and *Luis Miguel* (season 2), as well as the *Vikings* franchise. In comparison, television cost and P&R amortization expenses for the prior year's first quarter primarily included expenses associated with the significant *Vikings* franchise SVOD revenue, as discussed above. We do not record amortization expense for unscripted content that is recorded on a net basis.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were \$1.6 million and \$2.9 million for the three month periods ended March 31, 2021 and 2020, respectively.

## Media Networks

	Three Months Ended		Change	
	2021	2020	Amount	Percent
Revenue				
EPIX.....	\$ 108,184	\$ 97,802	\$ 10,382	11%
Other Channels.....	6,111	9,176	(3,065)	(33%)
Total revenue.....	114,295	106,978	7,317	7%
Expenses:				
Operating (9).....	67,173	86,781	(19,608)	(23%)
Distribution and marketing.....	6,326	11,221	(4,895)	(44%)
Total expenses.....	73,499	98,002	(24,503)	(25%)
Contribution.....	\$ 40,796	\$ 8,976	\$ 31,820	355%
Intercompany Programming Cost Amortization (9).....	8	218	(210)	(96%)
Non-recurring costs and expenses (10).....	1,033	833	200	24%
<b>Adjusted EBITDA (pre-G&amp;A).....</b>	<b>\$ 41,837</b>	<b>\$ 10,027</b>	<b>\$ 31,810</b>	<b>317%</b>

(9) Operating expenses for Media Networks included minimal Intercompany Programming Cost Amortization for the three month periods ended March 31, 2021 and 2020. Refer to *Cost Structure – Operating Expenses* for additional information.

(10) Non-recurring costs and expenses for the three months ended March 31, 2021 primarily consisted of expenses associated with the prior year sale of two digital networks. Non-recurring costs and expenses for the three months ended March 31, 2020 primarily consisted of restructuring and transition related expenses associated with the outsourcing of EPIX's digital operations.

## Media Networks – Revenue

Total revenue from our Media Networks segment, which includes EPIX and our other wholly-owned channels, was \$114.3 million for the three months ended March 31, 2021, an increase of \$7.3 million as compared to \$107.0 million for the three months ended March 31, 2020. This increase was primarily driven by the timing of revenue recognition associated with EPIX's digital distribution agreements, as well as higher subscriber-based revenue from our over-the-top distribution of EPIX through affiliate and our EPIX Now platforms.

## Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks segment were \$67.2 million for the three months ended March 31, 2021, a decrease of \$19.6 million as compared to \$86.8 million for the three months ended March 31, 2020. This decrease primarily reflected lower programming cost amortization expenses due to the later timing of new first run film content, which was impacted by the delayed theatrical release of several films as a result of the closure of theaters in response to the COVID-19 pandemic. Programming amortization expenses for the current year's first quarter primarily included recent film content, such as *Sonic the Hedgehog*, *Like a Boss* and *Star Trek Beyond*, as well as EPIX original content, including the newly released season 2 of *Pennyworth*, plus ongoing amortization expenses for season 1 of *Pennyworth*, *Godfather of Harlem* and *Perpetual Grace, LTD*.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks segment were \$6.3 million for the three months ended March 31, 2021, a decrease of \$4.9 million as compared to \$11.2 million for the three months ended March 31, 2020. This decrease primarily reflected lower marketing costs associated with EPIX original content. The current year's first quarter primarily included marketing costs associated with two scripted series, *Bridge & Tunnel* and *Condor*. In comparison, the prior year's first quarter primarily reflected marketing costs for the scripted series, *War of the Worlds* and *Belgravia*, and the docuseries, *Slow Burn*.

## General and Administrative Expenses

	Three Months Ended		Change	
	March 31,		Amount	Percent
	2021	2020		
Total G&A expenses.....	\$ 68,010	\$ 66,654	\$ 1,356	2%
Less: Stock-based compensation expense.....	(2,537)	(3,371)	834	25%
Less: Non-recurring costs and expenses.....	(2,005)	(2,570)	565	22%
Less: Minority interests' share of G&A expenses.....	(329)	(276)	(53)	(19%)
G&A expenses excluding stock-based compensation, non-recurring costs and expenses and minority interests' share of G&A expenses.....	\$ 63,139	\$ 60,437	\$ 2,702	4%

For the three months ended March 31, 2021, total G&A expenses were \$68.0 million, an increase of \$1.3 million as compared to \$66.7 million for the three months ended March 31, 2020. Excluding stock-based compensation, non-recurring costs and expenses and minority interests' share of G&A expenses for consolidated subsidiaries, G&A expenses increased \$2.7 million, or 4%, in the current year's first quarter, which was consistent with our expectations. This increase primarily reflected the run-rate impact of our targeted investments in personnel in the prior year plus modest investments in additional film and television personnel in the current year to support our growth objectives.

### Depreciation and non-content amortization

For the three months ended March 31, 2021, depreciation and non-content amortization was \$10.5 million, a decrease of \$1.9 million as compared to \$12.4 million for the three months ended March 31, 2020. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled \$6.1 million and \$8.0 million for the three month periods ended March 31, 2021 and 2020, respectively. Depreciation expense for fixed assets was \$4.1 million and \$4.2 million for the three month periods ended March 31, 2021 and 2020, respectively. Amortization expense associated with finance leases was \$0.3 million and \$0.2 million for the three month periods ended March 31, 2021 and 2020, respectively.

### Equity in net earnings (losses) of affiliates

For the three months ended March 31, 2021, equity in net losses of affiliates was \$1.4 million. This primarily included our share of the net loss of our U.S. theatrical distribution joint venture. For the three months ended March 31, 2020, equity in net earnings of affiliates was \$6.2 million and included a gain related to the monetization of a non-core, non-equity method investment, which was partially offset by our share of the net loss of our U.S. theatrical distribution joint venture.

### Interest expense

Interest expense is primarily comprised of contractual interest incurred under our \$1.8 billion revolving credit facility, \$400.0 million first lien term loan and \$400.0 million second lien term loan, as well as the amortization of related deferred financing costs (refer to *Liquidity and Capital Resources – Bank Borrowings* for further discussion) and interest expense associated with finance leases.

For the three months ended March 31, 2021, total interest expense was \$19.3 million, a decrease of \$4.1 million as compared to \$23.4 million for the three months ended March 31, 2020. For the current year's first quarter, interest expense included \$17.6 million of contractual interest and \$1.7 million of other interest costs. For the prior year's first quarter, interest expense included \$21.7 million of contractual interest and \$1.7 million of other interest costs. Cash paid for interest was \$17.4 million and \$21.7 million for the three month periods ended March 31, 2021 and 2020, respectively. Our lower interest expense and cash paid for interest in the current year's first quarter primarily reflected the impact of lower interest rates, which was partially offset by higher borrowings under our revolving credit facility to fund our investment spending on strategic growth initiatives.

***Interest income***

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the three month periods ended March 31, 2021 and 2020, the amounts recorded as interest income were immaterial.

***Other income (expense), net***

For the three month periods ended March 31, 2021 and 2020, the amounts recorded as other income were immaterial.

***Income tax provision***

For the three months ended March 31, 2021, we recorded an income tax provision of \$7.2 million, which represented an effective tax rate of 23%. For the three months ended March 31, 2020, we recorded an income tax provision of \$7.9 million. Based solely on our U.S. federal and state statutory income tax rates, our effective tax rate was 21% in the prior year's first quarter. In addition, our cash paid for income taxes continues to benefit from significant deferred tax assets, primarily net operating loss carryforwards and foreign tax credits.

## Liquidity and Capital Resources

### *General*

Our operations are capital intensive. In recent years we have funded our operations primarily with cash flow from operating activities, bank borrowings, and through co-production arrangements. In 2021 and beyond, we expect to fund our operations with (a) cash flow from the exploitation of our film and television content, (b) cash on hand, (c) co-production arrangements, and (d) funds available under our revolving credit facility. Although our liquidity has been negatively impacted by the COVID-19 pandemic and the measures to prevent its spread, including, among other things, the closure of theaters, suspension of content production activities and increased costs necessary to resume production activities, we expect that the operating cash flow generated by our businesses, together with our (i) existing cash on hand, (ii) availability under our existing credit facilities, and (iii) our ability to obtain additional external financing, will be sufficient for us to meet our current and long-term liquidity and capital requirements. However, we expect the timing of certain strategic priorities to be impacted, including the investment spending to grow our film and television content slate and the pace of our debt reduction efforts.

### *Bank Borrowings*

In July 2018, we entered into a seven-year \$400.0 million first lien term loan (the “1L Term Loan”) and an eight-year \$400.0 million second lien term loan (the “2L Term Loan”). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over LIBOR and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. Proceeds from the issuance of these term loans were primarily used to prepay our prior \$850.0 million senior secured term loan. In addition, we amended our senior secured revolving credit facility (the “Revolving Credit Facility”) to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base. Our Revolving Credit Facility currently has \$1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023. The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation. At March 31, 2021, we had \$1.235 billion drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$565.0 million of remaining funds were entirely available to us.

Per the New York Federal Reserve’s Alternative Reference Rates Committee, it is expected that the Secured Overnight Financing Rate (“SOFR”) will replace the London Inter-bank Offered Rate (“LIBOR”) as the primary index for USD floating rate debt as early as December 31, 2021. As discussed above, we currently borrow under floating rate LIBOR contracts for our Revolving Credit Facility, 1L Term Loan and 2L Term Loan. Our existing credit agreements for our Revolving Credit Facility, 1L Term Loan and 2L Term Loan contain language that allow us, in consultation of the administrative agent, to transition to an alternative interest rate benchmark if and when LIBOR is discontinued and we currently anticipate transitioning to SOFR upon its full implementation. Since LIBOR and SOFR indices have historically similar rates, we do not expect a significant change in the interest we will incur following the transition.

The Revolving Credit Facility, 1L Term Loan and 2L Term Loan contain various affirmative and negative covenants and financial tests, including, as applicable, limitations on our ability to make certain expenditures, incur indebtedness, grant liens, dispose of property, merge, consolidate or undertake other fundamental changes, pay dividends and make distributions, make certain investments, enter into certain transactions, and pursue new lines of business outside of entertainment and/or media-related business activities. We were in compliance with all applicable covenants and there were no events of default at March 31, 2021.

### *Cash Provided By (Used In) Operating Activities*

Cash used in operating activities was \$11.2 million for the three months ended March 31, 2021 and cash provided by operating activities was \$13.6 million for the three months ended March 31, 2020. The change in operating cash flow included \$11.8 million of higher net cash investment in content during the current year’s first quarter. Content investment primarily included the production of new film content including *House of Gucci*, *Thirteen Lives*, *The Addams Family* sequel and *Cyrano*, plus scripted television series, primarily *The Handmaid’s Tale* (season 4) and *Clarice* (season 1), as well as recently released film content and original programming for EPIX.

In addition, cash flow from operating activities reflected lower cash flow from EPIX due the timing of programming payments, which was partially offset by higher library cash flow due to the continued strong performance of our vast library of film and television content.

#### *Cash Used In Investing Activities*

Cash used in investing activities was \$6.5 million and \$7.0 million for the three month periods March 31, 2021 and 2020, respectively. Cash used in investing activities for both periods was primarily comprised of capital expenditures on infrastructure and capital contributions to our U.S. theatrical distribution joint venture.

#### *Cash Provided By Financing Activities*

Cash provided by financing activities was \$28.4 million for the three months ended March 31, 2021. This primarily included \$30.0 million of net borrowings under our Revolving Credit Facility to finance our strategic investment spending on growth initiatives, primarily the higher net cash investment in film and television content discussed above. Cash provided by financing activities was \$206.8 million for the three months ended March 31, 2020. This primarily included \$335.0 million of net borrowings under our Revolving Credit Facility to finance our strategic investment spending on growth initiatives and to provide readily available liquidity to meet the Company's needs for the foreseeable future. This was partially offset by \$126.9 million of aggregate repurchases of our Class A common stock.

#### *Commitments*

Future minimum commitments under corporate debt agreements, creative talent and employment agreements, non-cancelable finance and operating leases (net of sublease income), and other contractual obligations at March 31, 2021, were as follows (in thousands):

	Nine Months Ended		Year Ended December 31,					Total
	December 31, 2021	December 31, 2022	2023	2024	2025	Thereafter		
Corporate debt (1)	\$ 3,000	\$ 4,000	\$ 1,239,000	\$ 4,000	\$ 375,000	\$ 400,000	\$ 2,025,000	
Program rights (2)	109,928	36,936	7,379	-	-	-	154,243	
Creative talent and employment agreements (3)	223,891	55,737	11,656	1,649	-	-	292,933	
Lease obligations	15,586	20,413	16,105	15,371	14,969	18,231	100,674	
Other contractual obligations (4)	22,683	10,843	1,949	-	-	-	35,475	
	<u>\$ 375,088</u>	<u>\$ 127,929</u>	<u>\$ 1,276,089</u>	<u>\$ 21,020</u>	<u>\$ 389,969</u>	<u>\$ 418,231</u>	<u>\$ 2,608,326</u>	

<sup>(1)</sup> Corporate debt does not include interest costs.

<sup>(2)</sup> Program rights include contractual commitments under programming license agreements related to film and television content that is not available for exhibition until a future date.

<sup>(3)</sup> Creative talent and employment agreements include obligations to producers, directors, writers, actors and executives, as well as other creative costs involved in producing film and television content.

<sup>(4)</sup> Other contractual obligations primarily include contractual commitments related to our acquisition of film and distribution rights. Future payments under these commitments are based on anticipated delivery or availability dates of the related film or contractual due dates of the commitment.

As discussed above under *Liquidity and Capital Resources –Bank Borrowings*, we have a \$1.8 billion Revolving Credit Facility. At March 31, 2021, we had \$1.235 billion drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$565.0 million of remaining funds were entirely available to us. Our future capital expenditure commitments are not significant.